

18-008

ORIGINAL

**ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD  
APPLICATION FOR PERMIT**

**SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION**

**RECEIVED**

This Section must be completed for all projects.

FEB 09 2018

**Facility/Project Identification**

**HEALTH FACILITIES &  
SERVICES REVIEW BOARD**

Facility Name: Kildeer Ambulatory Care Center			
Street Address: 21481 N. Rand Road			
City and Zip Code: Kildeer		60047	
County: Lake	Health Service Area: HSA 8	Health Planning Area: A-09	

**Applicant(s)** [Provide for each applicant (refer to Part 1130.220)]

Exact Legal Name: Northwest Community Hospital	
Street Address: 800 West Central Road	
City and Zip Code: Arlington Heights, IL 60005	
Name of Registered Agent: Stephen O. Scogna	
Registered Agent Street Address: 800 West Central Road	
Registered Agent City and Zip Code: Arlington Heights, IL 60005	
Name of Chief Executive Officer: Stephen O. Scogna	
CEO Street Address: 800 West Central Road	
CEO City and Zip Code: Arlington Heights 60005	
CEO Telephone Number: 847-618-5018	

**Type of Ownership of Applicants**

<input checked="" type="checkbox"/> Non-profit Corporation	<input type="checkbox"/> Partnership
<input type="checkbox"/> For-profit Corporation	<input type="checkbox"/> Governmental
<input type="checkbox"/> Limited Liability Company	<input type="checkbox"/> Sole Proprietorship
<input type="checkbox"/> Other	
<ul style="list-style-type: none"> <li>Corporations and limited liability companies must provide an <b>Illinois certificate of good standing</b>.</li> <li>Partnerships must provide the name of the state in which they are organized and the name and address of each partner specifying whether each is a general or limited partner.</li> </ul>	
<p><b>APPEND DOCUMENTATION AS ATTACHMENT 1 IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.</b></p>	

**Primary Contact** [Person to receive ALL correspondence or inquiries]

Name:	Brad Buxton
Title:	Vice President, Strategy and Business Development
Company Name:	Northwest Community Healthcare
Address:	800 W. Central Road, Arlington Heights, IL 60035
Telephone Number:	847-618-5020
E-mail Address:	bbuxton@nch.org
Fax Number:	847-618-5009

**Additional Contact** [Person who is also authorized to discuss the application for permit]

Name:	Ralph Weber
Title:	Consultant
Company Name:	Weber Alliance
Address:	920 Hoffman Lane
Telephone Number:	Riverwoods, IL 60015
E-mail Address:	rmweber90@gmail.com
Fax Number:	

**ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD  
APPLICATION FOR PERMIT**

**SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION**

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☐ Corporations and limited liability companies must provide an Illinois certificate of good standing.  
☐ Partnerships must provide the name of the state in which they are organized and the name and address of each partner specifying whether each is a general or limited partner.

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Company Name:	Weber Alliance
Address:	920 Hoffman Lane
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E-mail Address:	rmweber90@gmail.com
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APPLICATION FOR PERMIT**

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County: Lake	Health Service Area: HSA 8	Health Planning Area: A-09	

**Applicant(s) [Provide for each applicant (refer to Part 1130.220)]**

Exact Legal Name: Kildeer Medical Building, LLC	
Street Address: 10 S. Riverside Plaza, SUITE 1400	
City and Zip Code: Chicago, IL 60606	
Name of Registered Agent: Bruce Salk	
Registered Agent Street Address: 630 Dundee Rd, Suite 120	
Registered Agent City and Zip Code: Northbrook, IL 60062-2749	
Name of Chief Executive Officer: Brian Baker, Jr., Manager, Medicus Managers, LLC	
CEO Street Address: 10 S. Riverside Plaza, SUITE 1400	
CEO City and Zip Code: Chicago, IL 60606	
CEO Telephone Number: 312-641-2400	

**Type of Ownership of Applicants**

<input type="checkbox"/> Non-profit Corporation	<input type="checkbox"/> Partnership
<input type="checkbox"/> For-profit Corporation	<input type="checkbox"/> Governmental
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Telephone Number:	Riverwoods, IL 60015
E-mail Address:	rmweber90@gmail.com
Fax Number:	

### Post Permit Contact

[Person to receive all correspondence subsequent to permit issuance-**THIS PERSON MUST BE EMPLOYED BY THE LICENSED HEALTH CARE FACILITY AS DEFINED AT 20 ILCS 3960]**

Name:	Brad Buxton		
Title:	Vice President, Strategy and Business development		
Company Name:	Northwest Community Healthcare		
Address:	800 West Central Road	Arlington Heights, IL	60005
Telephone Number:	847-618-5020		
E-mail Address:	bbuxton@nch.org		
Fax Number:	847-618-5009		

### Site Ownership

[Provide this information for each applicable site]

Exact Legal Name of Site Owner:	Timothy P. James, Diane I. James
Address of Site Owner:	21481 N. Rand Road, Kildeer, IL 60047
Street Address or Legal Description of the Site:	
Proof of ownership or control of the site is to be provided as Attachment 2. Examples of proof of ownership are property tax statements, tax assessor's documentation, deed, notarized statement of the corporation attesting to ownership, an option to lease, a letter of intent to lease, or a lease.	
APPEND DOCUMENTATION AS <u>ATTACHMENT 2</u> , IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.	

### Operating Identity/Licensee

[Provide this information for each applicable facility and insert after this page.]

Exact Legal Name:	Kildeer Medical Building, LLC
Address:	10 S. Riverside Plaza, Suite 1400 Chicago, IL 60606
<input type="checkbox"/> Non-profit Corporation	<input type="checkbox"/> Partnership
<input type="checkbox"/> For-profit Corporation	<input type="checkbox"/> Governmental
<input checked="" type="checkbox"/> Limited Liability Company	<input type="checkbox"/> Sole Proprietorship
Other <input type="checkbox"/>	
<ul style="list-style-type: none"><li>Corporations and limited liability companies must provide an Illinois Certificate of Good Standing.</li><li>Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner.</li><li><b>Persons with 5 percent or greater interest in the licensee must be identified with the % of ownership.</b></li></ul>	
APPEND DOCUMENTATION AS <u>ATTACHMENT 3</u> , IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.	

### Organizational Relationships

Provide (for each applicant) an organizational chart containing the name and relationship of any person or entity who is related (as defined in Part 1130.140). If the related person or entity is participating in the development or funding of the project, describe the interest and the amount and type of any financial contribution.

APPEND DOCUMENTATION AS ATTACHMENT 4, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

### **Flood Plain Requirements**

[Refer to application instructions.]

Provide documentation that the project complies with the requirements of Illinois Executive Order #2006-5 pertaining to construction activities in special flood hazard areas. As part of the flood plain requirements, please provide a map of the proposed project location showing any identified floodplain areas. Floodplain maps can be printed at [www.FEMA.gov](http://www.FEMA.gov) or [www.illinoisfloodmaps.org](http://www.illinoisfloodmaps.org). **This map must be in a readable format.** In addition, please provide a statement attesting that the project complies with the requirements of Illinois Executive Order #2006-5 (<http://www.hfsrb.illinois.gov>).

APPEND DOCUMENTATION AS ATTACHMENT 5, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

### **Historic Resources Preservation Act Requirements**

[Refer to application instructions.]

Provide documentation regarding compliance with the requirements of the Historic Resources Preservation Act.

APPEND DOCUMENTATION AS ATTACHMENT 6, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

## **DESCRIPTION OF PROJECT**

### **1. Project Classification**

[Check those applicable - refer to Part 1110.40 and Part 1120.20(b)]

Part 1110 Classification:

☐ Substantive

☒ X Non-substantive

## 2. Narrative Description

In the space below, provide a brief narrative description of the project. Explain **WHAT** is to be done in **State Board defined terms**, **NOT WHY** it is being done. If the project site does **NOT** have a street address, include a legal description of the site. Include the rationale regarding the project's classification as substantive or non-substantive.

Northwest Community Hospital, Northwest Community Healthcare, and Kildeer Medical Building, LLC, as co-applicants propose to construct an ambulatory care center at 21481 N. Rand Road in north suburban Kildeer, on the southeast corner of N. Rand Road and Cuba Road.

The ambulatory care center will include medical offices, clinic space with 35 exam rooms, an immediate care center, imaging services (MRI, CT scanning, x-ray, bone densitometry, ultrasound and mammography), cardiology (EKG, stress testing, cardiac rehab and nuclear medicine), a lab draw station with some point of care testing on site, and physical therapy. Special programs featured at the center are cardiology, digestive services and women's health.

The 2 story ambulatory care center building will total 51,100 building gross sq ft (47,380 departmental gross sq ft). All space is new construction. Total capital costs associated with the project are \$56,781,413, of which \$23,277,000 constitutes the fair market value of space leased by Northwest Community Hospital for its employed medical group, Northwest Community Health Services.

Kildeer Medical Building, LLC is the title holder, responsible for land purchase and the capital costs of building construction. Kildeer Medical Building is a joint venture of Medicus Kildeer, LLC, which has an 80% ownership interest, and Northwest Community Healthcare Services, which has a 20% ownership interest. In addition to leasing all space in the building, Northwest Community Hospital is responsible for funding the cost of all medical equipment, fixtures, furniture, non-medical equipment, and information technology.

The project will be completed in March, 2020.

The project is Non-Substantive because it does not propose to establish a new category of service, and there are no services to inpatients.

### Project Costs and Sources of Funds

Complete the following table listing all costs (refer to Part 1120.110) associated with the project. When a project or any component of a project is to be accomplished by lease, donation, gift, or other means, the fair market or dollar value (refer to Part 1130.140) of the component must be included in the estimated project cost. If the project contains non-reviewable components that are not related to the provision of health care, complete the second column of the table below. Note, the use and sources of funds must be equal.

Project Costs and Sources of Funds			
USE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Preplanning Costs			
Site Survey and Soil Investigation			
Site Preparation			
Off Site Work			
New Construction Contracts			
Modernization Contracts			
Contingencies			
Architectural/Engineering Fees			
Consulting and Other Fees			
Movable or Other Equipment (not in construction contracts)			
Bond Issuance Expense (project related)			
Net Interest Expense During Construction (project related)			
Fair Market Value of Leased Space or Equipment			
Other Costs To Be Capitalized			
Acquisition of Building or Other Property (excluding land)			
<b>TOTAL USES OF FUNDS</b>			
SOURCE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Cash and Securities			
Pledges			
Gifts and Bequests			
Bond Issues (project related)			
Mortgages			
Leases (fair market value)			
Governmental Appropriations			
Grants			
Other Funds and Sources			
<b>TOTAL SOURCES OF FUNDS</b>			
NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT 7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.			

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APPEND DOCUMENTATION AS ATTACHMENT 4, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.
----------------------------------------------------------------------------------------------------------------



### Related Project Costs

Provide the following information, as applicable, with respect to any land related to the project that will be or has been acquired during the last two calendar years:

Land acquisition is related to project	<input type="checkbox"/> X Yes	<input type="checkbox"/> No
Purchase Price:	\$ 3,550,000	
Fair Market Value:	\$	

The project involves the establishment of a new facility or a new category of service  
☐ Yes ☐ X No

If yes, provide the dollar amount of all **non-capitalized** operating start-up costs (including operating deficits) through the first full fiscal year when the project achieves or exceeds the target utilization specified in Part 1100.

Estimated start-up costs and operating deficit cost is \$

### Project Status and Completion Schedules

<b>For facilities in which prior permits have been issued please provide the permit numbers.</b>	
Indicate the stage of the project's architectural drawings:	
<input type="checkbox"/> None or not applicable	<input type="checkbox"/> Preliminary
<input type="checkbox"/> X Schematics	<input type="checkbox"/> Final Working
Anticipated project completion date (refer to Part 1130.140): <u>March 31, 2020</u>	
Indicate the following with respect to project expenditures or to financial commitments (refer to Part 1130.140):	
<input type="checkbox"/> Purchase orders, leases or contracts pertaining to the project have been executed.	
<input type="checkbox"/> Financial commitment is contingent upon permit issuance. Provide a copy of the contingent "certification of financial commitment" document, highlighting any language related to CON Contingencies	
<input type="checkbox"/> X Financial Commitment will occur after permit issuance.	
APPEND DOCUMENTATION AS <u>ATTACHMENT 8</u> , IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.	

### State Agency Submittals [Section 1130.620(c)]

Are the following submittals up to date as applicable:
<input type="checkbox"/> X Cancer Registry
<input type="checkbox"/> X APORS
<input type="checkbox"/> X All formal document requests such as IDPH Questionnaires and Annual Bed Reports been submitted
<input type="checkbox"/> X All reports regarding outstanding permits
<b>Failure to be up to date with these requirements will result in the application for permit being deemed incomplete.</b>

## Cost Space Requirements

Provide in the following format, the **Departmental Gross Square Feet (DGSF)** or the **Building Gross Square Feet (BGSF)** and cost. The type of gross square footage either **DGSF** or **BGSF** must be identified. The sum of the department costs **MUST** equal the total estimated project costs. Indicate if any space is being reallocated for a different purpose. Include outside wall measurements plus the department's or area's portion of the surrounding circulation space. **Explain the use of any vacated space.**

Dept. / Area	Cost	Gross Square Feet		Amount of Proposed Total Gross Square Feet That Is:			
		Existing	Proposed	New Const.	Modernized	As Is	Vacated Space
<b>REVIEWABLE</b>							
Medical Surgical							
Intensive Care							
Diagnostic Radiology							
MRI							
Total Clinical							
<b>NON REVIEWABLE</b>							
Administrative							
Parking							
Gift Shop							
Total Non-clinical							
<b>TOTAL</b>							

APPEND DOCUMENTATION AS ATTACHMENT 9, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

## Facility Bed Capacity and Utilization

Complete the following chart, as applicable. Complete a separate chart for each facility that is a part of the project and insert the chart after this page. Provide the existing bed capacity and utilization data for the latest **Calendar Year for which data is available**. Include **observation days in the patient day totals for each bed service**. Any bed capacity discrepancy from the Inventory will result in the application being deemed incomplete.

FACILITY NAME: Northwest Community Hospital		CITY: Arlington Heights			
REPORTING PERIOD DATES:                      From:    January 1, 2016                      to: December 31, 2016					
Category of Service	Authorized Beds	Admissions	Patient Days	Bed Changes	Proposed Beds
Medical/Surgical	312	11,710	59,591	0	312
Obstetrics	44	2,772	7,501	0	44
Pediatrics	16	524	4,388	0	16
Intensive Care	60	3,062	8,532	0	60
Comprehensive Physical Rehabilitation	17	361	5,001	0	17
Acute/Chronic Mental Illness	52	1,833	12,260	0	52
Neonatal Intensive Care	8	58	636	0	8
General Long Term Care					
Specialized Long Term Care					
Long Term Acute Care					
Other ((identify)					
TOTALS:	509	19,740  (Total does not include 580 IC transfers)	97,909	0	509

## CERTIFICATION

The Application must be signed by the authorized representatives of the applicant entity. Authorized representatives are:

- o in the case of a corporation, any two of its officers or members of its Board of Directors;
- o in the case of a limited liability company, any two of its managers or members (or the sole manager or member when two or more managers or members do not exist);
- o in the case of a partnership, two of its general partners (or the sole general partner, when two or more general partners do not exist);
- o in the case of estates and trusts, two of its beneficiaries (or the sole beneficiary when two or more beneficiaries do not exist); and
- o in the case of a sole proprietor, the individual that is the proprietor.

This Application is filed on the behalf of Northwest Community Hospital \*  
in accordance with the requirements and procedures of the Illinois Health Facilities Planning Act. The undersigned certifies that he or she has the authority to execute and file this Application on behalf of the applicant entity. The undersigned further certifies that the data and information provided herein, and appended hereto, are complete and correct to the best of his or her knowledge and belief. The undersigned also certifies that the fee required for this application is sent herewith or will be paid upon request.

SIGNATURE

STEVEN SCOGNA

PRINTED NAME

PRESIDENT

PRINTED TITLE

SIGNATURE

MICHAEL HARTKE

PRINTED NAME

EVP & COO

PRINTED TITLE

Notarization:

Subscribed and sworn to before me  
this 30 day of JANUARY, 2018

Notarization:

Subscribed and sworn to before me  
this 30 day of JANUARY, 2018

Signature of Notary

Seal

GLEND A PETERSON  
Official Seal

\*Insert the EXACT legal name of the applicant  
Notary Public - State of Illinois  
My Commission Expires Sep 17

Signature of Notary

Seal

GLEND A PETERSON  
Official Seal  
Notary Public - State of Illinois  
My Commission Expires Sep 18, 2020

## CERTIFICATION

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This Application is filed on the behalf of Northwest Community Healthcare \*  
in accordance with the requirements and procedures of the Illinois Health Facilities Planning Act. The undersigned certifies that he or she has the authority to execute and file this Application on behalf of the applicant entity. The undersigned further certifies that the data and information provided herein, and appended hereto, are complete and correct to the best of his or her knowledge and belief. The undersigned also certifies that the fee required for this application is sent herewith or will be paid upon request.

SIGNATURE

STEVEN SCOGNA  
PRINTED NAME

PRESIDENT  
PRINTED TITLE

SIGNATURE

MICHAEL HARTKE  
PRINTED NAME

EVP & COO  
PRINTED TITLE

Notarization:

Subscribed and sworn to before me  
this 30 day of JANUARY, 2018

Notarization:

Subscribed and sworn to before me  
this 30 day of JANUARY, 2018

Signature of Notary

Seal

Glenda Peterson  
Signature of Notary

Seal

GLEND A PETERSON  
Official Seal  
Notary Public - State of Illinois  
My Commission Expires Sep 18, 2020

\*Insert the EXACT legal name of the applicant

Signature of Notary

Seal

Glenda Peterson  
Signature of Notary

Seal

GLEND A PETERSON  
Official Seal  
Notary Public - State of Illinois  
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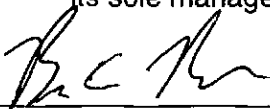
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- in the case of estates and trusts, two of its beneficiaries (or the sole beneficiary when two or more beneficiaries do not exist); and
- in the case of a sole proprietor, the individual that is the proprietor.

This Application is filed on the behalf of Kildeer Medical Building, LLC \*  
in accordance with the requirements and procedures of the Illinois Health Facilities Planning Act. The undersigned certifies that he or she has the authority to execute and file this Application on behalf of the applicant entity. The undersigned further certifies that the data and information provided herein, and appended hereto, are complete and correct to the best of his or her knowledge and belief. The undersigned also certifies that the fee required for this application is sent herewith or will be paid upon request.

By: MEDICUS MANAGERS, LLC,  
its sole manager



SIGNATURE

Brian C. Baker

PRINTED NAME

Its Manager

PRINTED TITLE

SIGNATURE

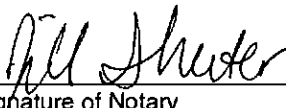
PRINTED NAME

PRINTED TITLE

KILDEER MEDICAL BUILDING, LLC  
HAS ONLY ONE PERSON, THE  
MANAGER

Notarization:

Subscribed and sworn to before me  
this 5<sup>th</sup> day of Feb. 2018



Signature of Notary

Seal

OFFICIAL SEAL  
JILL SHUTER

Notary Public - State of Illinois

\* Insert the full legal name of the applicant

Notarization:

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_

Signature of Notary

Seal

**SECTION III. BACKGROUND, PURPOSE OF THE PROJECT, AND ALTERNATIVES - INFORMATION REQUIREMENTS**

This Section is applicable to all projects except those that are solely for discontinuation with no project costs.

**Background**

READ THE REVIEW CRITERION and provide the following required information:

**BACKGROUND OF APPLICANT**

1. A listing of all health care facilities owned or operated by the applicant, including licensing, and certification if applicable.
2. A certified listing of any adverse action taken against any facility owned and/or operated by the applicant during the three years prior to the filing of the application.
3. Authorization permitting HFSRB and DPH access to any documents necessary to verify the information submitted, including, but not limited to official records of DPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. **Failure to provide such authorization shall constitute an abandonment or withdrawal of the application without any further action by HFSRB.**
4. If, during a given calendar year, an applicant submits more than one application for permit, the documentation provided with the prior applications may be utilized to fulfill the information requirements of this criterion. In such instances, the applicant shall attest that the information was previously provided, cite the project number of the prior application, and certify that no changes have occurred regarding the information that has been previously provided. The applicant is able to submit amendments to previously submitted information, as needed, to update and/or clarify data.

**APPEND DOCUMENTATION AS ATTACHMENT 11, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM. EACH ITEM (1-4) MUST BE IDENTIFIED IN ATTACHMENT 11.**

**Criterion 1110.230 – Purpose of the Project, and Alternatives****PURPOSE OF PROJECT**

1. Document that the project will provide health services that improve the health care or well-being of the market area population to be served.
2. Define the planning area or market area, or other relevant area, per the applicant's definition.
3. Identify the existing problems or issues that need to be addressed as applicable and appropriate for the project.
4. Cite the sources of the documentation.
5. Detail how the project will address or improve the previously referenced issues, as well as the population's health status and well-being.
6. Provide goals with quantified and measurable objectives, with specific timeframes that relate to achieving the stated goals as appropriate.

For projects involving modernization, describe the conditions being upgraded, if any. For facility projects, include statements of the age and condition of the project site, as well as regulatory citations, if any. For equipment being replaced, include repair and maintenance records.

**NOTE: Information regarding the "Purpose of the Project" will be included in the State Board Staff Report.**

**APPEND DOCUMENTATION AS ATTACHMENT 12, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM. EACH ITEM (1-6) MUST BE IDENTIFIED IN ATTACHMENT 12.**

**ALTERNATIVES**

- 1) Identify **ALL** of the alternatives to the proposed project:

Alternative options **must** include:

- A) Proposing a project of greater or lesser scope and cost;
  - B) Pursuing a joint venture or similar arrangement with one or more providers or entities to meet all or a portion of the project's intended purposes; developing alternative settings to meet all or a portion of the project's intended purposes;
  - C) Utilizing other health care resources that are available to serve all or a portion of the population proposed to be served by the project; and
  - D) Provide the reasons why the chosen alternative was selected.
- 2) Documentation shall consist of a comparison of the project to alternative options. The comparison shall address issues of total costs, patient access, quality and financial benefits in both the short-term (within one to three years after project completion) and long-term. This may vary by project or situation. **FOR EVERY ALTERNATIVE IDENTIFIED, THE TOTAL PROJECT COST AND THE REASONS WHY THE ALTERNATIVE WAS REJECTED MUST BE PROVIDED.**
- 3) The applicant shall provide empirical evidence, including quantified outcome data that verifies improved quality of care, as available.

**APPEND DOCUMENTATION AS ATTACHMENT 13, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.**



**SECTION IV. PROJECT SCOPE, UTILIZATION, AND UNFINISHED/SHELL SPACE****Criterion 1110.234 - Project Scope, Utilization, and Unfinished/Shell Space**

READ THE REVIEW CRITERION and provide the following information:

**SIZE OF PROJECT:**

1. Document that the amount of physical space proposed for the proposed project is necessary and not excessive. This must be a narrative and it shall include the basis used for determining the space and the methodology applied.
2. If the gross square footage exceeds the BGSF/DGSF standards in Appendix B, justify the discrepancy by documenting one of the following:
  - a. Additional space is needed due to the scope of services provided, justified by clinical or operational needs, as supported by published data or studies and certified by the facility's Medical Director.
  - b. The existing facility's physical configuration has constraints or impediments and requires an architectural design that delineates the constraints or impediments.
  - c. The project involves the conversion of existing space that results in excess square footage.
  - d. Additional space is mandated by governmental or certification agency requirements that were not in existence when Appendix B standards were adopted.

Provide a narrative for any discrepancies from the State Standard. A table must be provided in the following format with Attachment 14.

SIZE OF PROJECT				
DEPARTMENT/SERVICE	PROPOSED BGSF/DGSF	STATE STANDARD	DIFFERENCE	MET STANDARD?

APPEND DOCUMENTATION AS ATTACHMENT 14, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

**PROJECT SERVICES UTILIZATION:**

This criterion is applicable only to projects or portions of projects that involve services, functions or equipment for which HFSRB has established utilization standards or occupancy targets in 77 Ill. Adm. Code 1100.

Document that in the second year of operation, the annual utilization of the service or equipment shall meet or exceed the utilization standards specified in 1110. Appendix B. A narrative of the rationale that supports the projections must be provided.

A table must be provided in the following format with Attachment 15.

UTILIZATION					
	DEPT./ SERVICE	HISTORICAL UTILIZATION (PATIENT DAYS) (TREATMENTS) ETC.	PROJECTED UTILIZATION	STATE STANDARD	MET STANDARD?
YEAR 1					
YEAR 2					

APPEND DOCUMENTATION AS ATTACHMENT 15, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

**UNFINISHED OR SHELL SPACE:**

There is no unfinished or shelled space in this project.

Provide the following information:

1. Total gross square footage (GSF) of the proposed shell space.
2. The anticipated use of the shell space, specifying the proposed GSF to be allocated to each department, area or function.
3. Evidence that the shell space is being constructed due to:
  - a. Requirements of governmental or certification agencies; or
  - b. Experienced increases in the historical occupancy or utilization of those areas proposed to occupy the shell space.
4. Provide:
  - a. Historical utilization for the area for the latest five-year period for which data is available; and
  - b. Based upon the average annual percentage increase for that period, projections of future utilization of the area through the anticipated date when the shell space will be placed into operation.

APPEND DOCUMENTATION AS ATTACHMENT 16, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

**ASSURANCES:**

Submit the following:

1. Verification that the applicant will submit to HFSRB a CON application to develop and utilize the shell space, regardless of the capital thresholds in effect at the time or the categories of service involved.
2. The estimated date by which the subsequent CON application (to develop and utilize the subject shell space) will be submitted; and
3. The anticipated date when the shell space will be completed and placed into operation.

APPEND DOCUMENTATION AS ATTACHMENT 17, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

**M. Criterion 1110.3030 - Clinical Service Areas Other than Categories of Service**

1. Applicants proposing to establish, expand and/or modernize Clinical Service Areas Other than categories of service must submit the following information:
2. Indicate changes by Service: Indicate # of key room changes by action(s):

Service	# Existing Key Rooms	# Proposed Key Rooms
<input type="checkbox"/>		
<input type="checkbox"/>		
<input type="checkbox"/>		

3. READ the applicable review criteria outlined below and submit the required documentation for the criteria:

Project Type	Required Review Criteria
New Services or Facility or Equipment	(c) - Need Determination - Establishment
Service Modernization	(d)(1) - Deteriorated Facilities
	AND/OR
	(d)(2) - Necessary Expansion
	PLUS
	(d)(3)(A) - Utilization - Major Medical Equipment
	OR
	(d)(3)(B) - Utilization - Service or Facility
APPEND DOCUMENTATION AS <u>ATTACHMENT 31</u> , IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.	

The following Sections **DO NOT** need to be addressed by the applicants or co-applicants responsible for funding or guaranteeing the funding of the project if the applicant has a bond rating of A- or better from Fitch's or Standard and Poor's rating agencies, or A3 or better from Moody's (the rating shall be affirmed within the latest 18-month period prior to the submittal of the application):

- Section 1120.120 Availability of Funds – Review Criteria
- Section 1120.130 Financial Viability – Review Criteria
- Section 1120.140 Economic Feasibility – Review Criteria, subsection (a)

## VII. 1120.120 - AVAILABILITY OF FUNDS

The applicant shall document that financial resources shall be available and be equal to or exceed the estimated total project cost plus any related project costs by providing evidence of sufficient financial resources from the following sources, as applicable [Indicate the dollar amount to be provided from the following sources]:

\$8,754,413	a)	Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to: <ol style="list-style-type: none"> <li>1) the amount of cash and securities available for the project, including the identification of any security, its value and availability of such funds; and</li> <li>2) interest to be earned on depreciation account funds or to be earned on any asset from the date of applicant's submission through project completion;</li> </ol>
_____	b)	Pledges – for anticipated pledges, a summary of the anticipated pledges showing anticipated receipts and discounted value, estimated time table of gross receipts and related fundraising expenses, and a discussion of past fundraising experience.
_____	c)	Gifts and Bequests – verification of the dollar amount, identification of any conditions of use, and the estimated time table of receipts;
\$24,750,000 Mortgage	d)	Debt – a statement of the estimated terms and conditions (including the debt time period, variable or permanent interest rates over the debt time period, and the anticipated repayment schedule) for any interim and for the permanent financing proposed to fund the project, including: <ol style="list-style-type: none"> <li>1) For general obligation bonds, proof of passage of the required referendum or evidence that the governmental unit has the authority to issue the bonds and evidence of the dollar amount of the issue, including any discounting anticipated;</li> <li>2) For revenue bonds, proof of the feasibility of securing the specified amount and interest rate;</li> <li>3) For mortgages, a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated, including the anticipated interest rate and any conditions associated with the mortgage, such as, but not limited to, adjustable interest rates, balloon payments, etc.;</li> <li>4) For any lease, a copy of the lease, including all the terms and conditions, including any purchase options, any capital improvements to the property and provision of capital equipment;</li> <li>5) For any option to lease, a copy of the option, including all terms and conditions.</li> </ol>
\$23,277,000 Lease		

_____	e) Governmental Appropriations – a copy of the appropriation Act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, a copy of a resolution or other action of the governmental unit attesting to this intent;
_____	f) Grants – a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt;
_____	g) All Other Funds and Sources – verification of the amount and type of any other funds that will be used for the project.
\$56,781,413	<b>TOTAL FUNDS AVAILABLE</b>

APPEND DOCUMENTATION AS ATTACHMENT 34, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

**SECTION VIII. 1120.130 - FINANCIAL VIABILITY**

All the applicants and co-applicants shall be identified, specifying their roles in the project funding or guaranteeing the funding (sole responsibility or shared) and percentage of participation in that funding.

**Financial Viability Waiver**

The applicant is not required to submit financial viability ratios if:

1. "A" Bond rating or better
2. All of the projects capital expenditures are completely funded through internal sources
3. The applicant's current debt financing or projected debt financing is insured or anticipated to be insured by MBIA (Municipal Bond Insurance Association Inc.) or equivalent
4. The applicant provides a third party surety bond or performance bond letter of credit from an A rated guarantor.

See Section 1120.130 Financial Waiver for information to be provided

APPEND DOCUMENTATION AS **ATTACHMENT 35**, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

The applicant or co-applicant that is responsible for funding or guaranteeing funding of the project shall provide viability ratios for the latest three years for which **audited financial statements are available and for the first full fiscal year at target utilization, but no more than two years following project completion.** When the applicant's facility does not have facility specific financial statements and the facility is a member of a health care system that has combined or consolidated financial statements, the system's viability ratios shall be provided. If the health care system includes one or more hospitals, the system's viability ratios shall be evaluated for conformance with the applicable hospital standards.

	Historical 3 Years			Projected
Enter Historical and/or Projected Years:				
Current Ratio				
Net Margin Percentage				
Percent Debt to Total Capitalization				
Projected Debt Service Coverage				
Days Cash on Hand				
Cushion Ratio				

Provide the methodology and worksheets utilized in determining the ratios detailing the calculation and applicable line item amounts from the financial statements. Complete a separate table for each co-applicant and provide worksheets for each.

**Variance**

Applicants not in compliance with any of the viability ratios shall document that another organization, public or private, shall assume the legal responsibility to meet the debt obligations should the applicant default.

APPEND DOCUMENTATION AS **ATTACHMENT 36**, IN NUMERICAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

**SECTION IX. 1120.140 - ECONOMIC FEASIBILITY**

This section is applicable to all projects subject to Part 1120.

**A. Reasonableness of Financing Arrangements**

The applicant shall document the reasonableness of financing arrangements by submitting a notarized statement signed by an authorized representative that attests to one of the following:

- 1) That the total estimated project costs and related costs will be funded in total with cash and equivalents, including investment securities, unrestricted funds, received pledge receipts and funded depreciation; or
- 2) That the total estimated project costs and related costs will be funded in total or in part by borrowing because:
  - A) A portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order to maintain a current ratio of at least 2.0 times for hospitals and 1.5 times for all other facilities; or
  - B) Borrowing is less costly than the liquidation of existing investments, and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.

**B. Conditions of Debt Financing**

This criterion is applicable only to projects that involve debt financing. The applicant shall document that the conditions of debt financing are reasonable by submitting a notarized statement signed by an authorized representative that attests to the following, as applicable:

- 1) That the selected form of debt financing for the project will be at the lowest net cost available;
- 2) That the selected form of debt financing will not be at the lowest net cost available, but is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs and other factors;
- 3) That the project involves (in total or in part) the leasing of equipment or facilities and that the expenses incurred with leasing a facility or equipment are less costly than constructing a new facility or purchasing new equipment.

**C. Reasonableness of Project and Related Costs**

Read the criterion and provide the following:

1. Identify each department or area impacted by the proposed project and provide a cost and square footage allocation for new construction and/or modernization using the following format (insert after this page).

COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE									
Department (list below)	A	B	C	D	E	F	G	H	Total Cost (G + H)
	Cost/Square Foot New	Mod.	Gross Sq. Ft. New	Circ.*	Gross Sq. Ft. Mod.	Circ.*	Const. \$ (A x C)	Mod. \$ (B x E)	
Contingency									
TOTALS									

\* Include the percentage (%) of space for circulation

**D. Projected Operating Costs**

The applicant shall provide the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year at target utilization but no more than two years following project completion. Direct cost means the fully allocated costs of salaries, benefits and supplies for the service.

**E. Total Effect of the Project on Capital Costs**

The applicant shall provide the total projected annual capital costs (in current dollars per equivalent patient day) for the first full fiscal year at target utilization but no more than two years following project completion.

APPEND DOCUMENTATION AS ATTACHMENT 37, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

**SECTION X. SAFETY NET IMPACT STATEMENT**

**SAFETY NET IMPACT STATEMENT** that describes all of the following must be submitted for ALL SUBSTANTIVE PROJECTS AND PROJECTS TO DISCONTINUE STATE-OWNED HEALTH CARE FACILITIES [20 ILCS 3960/5.4]:

1. The project's material impact, if any, on essential safety net services in the community, to the extent that it is feasible for an applicant to have such knowledge.
2. The project's impact on the ability of another provider or health care system to cross-subsidize safety net services, if reasonably known to the applicant.
3. How the discontinuation of a facility or service might impact the remaining safety net providers in a given community, if reasonably known by the applicant.

**Safety Net Impact Statements shall also include all of the following:**

1. For the 3 fiscal years prior to the application, a certification describing the amount of charity care provided by the applicant. The amount calculated by hospital applicants shall be in accordance with the reporting requirements for charity care reporting in the Illinois Community Benefits Act. Non-hospital applicants shall report charity care, at cost, in accordance with an appropriate methodology specified by the Board.
2. For the 3 fiscal years prior to the application, a certification of the amount of care provided to Medicaid patients. Hospital and non-hospital applicants shall provide Medicaid information in a manner consistent with the information reported each year to the Illinois Department of Public Health regarding "Inpatients and Outpatients Served by Payor Source" and "Inpatient and Outpatient Net Revenue by Payor Source" as required by the Board under Section 13 of this Act and published in the Annual Hospital Profile.
3. Any information the applicant believes is directly relevant to safety net services, including information



regarding teaching, research, and any other service.

A table in the following format must be provided as part of Attachment 38.

Safety Net Information per PA 96-0031			
CHARITY CARE			
Charity (# of patients)	Year	Year	Year
Inpatient			
Outpatient			
<b>Total</b>			
<b>Charity (cost in dollars)</b>			
Inpatient			
Outpatient			
<b>Total</b>			
MEDICAID			
Medicaid (# of patients)	Year	Year	Year
Inpatient			
Outpatient			
<b>Total</b>			
<b>Medicaid (revenue)</b>			
Inpatient			
Outpatient			
<b>Total</b>			

APPEND DOCUMENTATION AS ATTACHMENT 38, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

**SECTION XI. CHARITY CARE INFORMATION**

Charity Care information **MUST** be furnished for **ALL** projects [1120.20(c)].

1. All applicants and co-applicants shall indicate the amount of charity care for the latest three **audited** fiscal years, the cost of charity care and the ratio of that charity care cost to net patient revenue.
2. If the applicant owns or operates one or more facilities, the reporting shall be for each individual facility located in Illinois. If charity care costs are reported on a consolidated basis, the applicant shall provide documentation as to the cost of charity care; the ratio of that charity care to the net patient revenue for the consolidated financial statement; the allocation of charity care costs; and the ratio of charity care cost to net patient revenue for the facility under review.
3. If the applicant is not an existing facility, it shall submit the facility's projected patient mix by payer source, anticipated charity care expense and projected ratio of charity care to net patient revenue by the end of its second year of operation.

Charity care" means care provided by a health care facility for which the provider does not expect to receive payment from the patient or a third-party payer (20 ILCS 3960/3). Charity Care **must** be provided at cost.

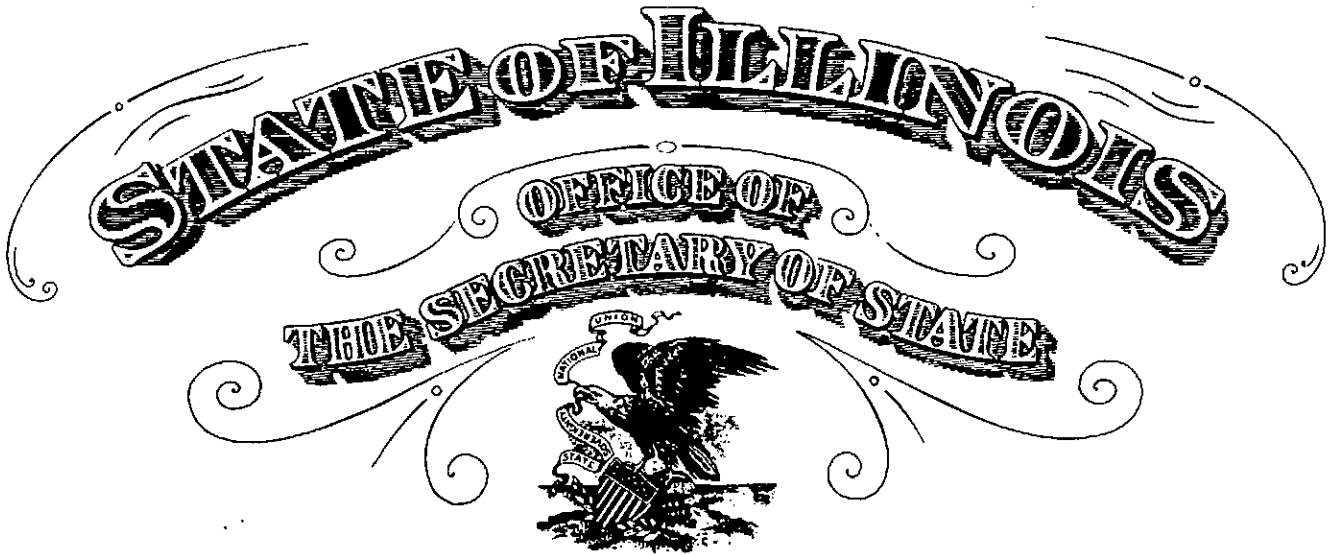
A table in the following format must be provided for all facilities as part of Attachment 39.

CHARITY CARE			
	Year	Year	Year
Net Patient Revenue			
Amount of Charity Care (charges)			
Cost of Charity Care			

APPEND DOCUMENTATION AS **ATTACHMENT 39**, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

After paginating the entire completed application indicate, in the chart below, the page numbers for the included attachments:

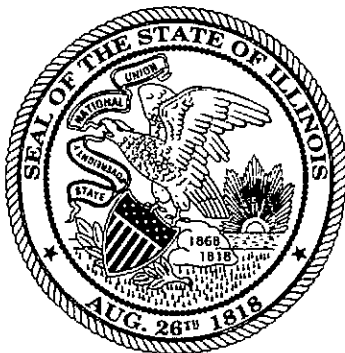
INDEX OF ATTACHMENTS		
ATTACHMENT NO.		PAGES
1	Applicant Identification including Certificate of Good Standing	28-30
2	Site Ownership	31-34
3	Persons with 5 percent or greater interest in the licensee must be identified with the % of ownership.	--
4	Organizational Relationships (Organizational Chart) Certificate of Good Standing Etc.	35-36
5	Flood Plain Requirements	37-38
6	Historic Preservation Act Requirements	39
7	Project and Sources of Funds Itemization	40-43
8	Financial Commitment Document if required	--
9	Cost Space Requirements	44
10	Discontinuation	--
11	Background of the Applicant	45-60
12	Purpose of the Project	61-64
13	Alternatives to the Project	65-66
14	Size of the Project	67-69
15	Project Service Utilization	70
16	Unfinished or Shell Space	--
17	Assurances for Unfinished/Shell Space	--
18	Master Design Project	--
	<b>Service Specific:</b>	
19	Medical Surgical Pediatrics, Obstetrics, ICU	--
20	Comprehensive Physical Rehabilitation	--
21	Acute Mental Illness	--
22	Open Heart Surgery	--
23	Cardiac Catheterization	--
24	In-Center Hemodialysis	--
25	Non-Hospital Based Ambulatory Surgery	--
26	Selected Organ Transplantation	--
27	Kidney Transplantation	--
28	Subacute Care Hospital Model	--
29	Community-Based Residential Rehabilitation Center	--
30	Long Term Acute Care Hospital	--
31	Clinical Service Areas Other than Categories of Service	71-73
32	Freestanding Emergency Center Medical Services	--
33	Birth Center	--
	<b>Financial and Economic Feasibility:</b>	
34	Availability of Funds	74-122
35	Financial Waiver	123-128
36	Financial Viability	--
37	Economic Feasibility	129-140
38	Safety Net Impact Statement	--
39	Charity Care Information	141



***To all to whom these Presents Shall Come, Greeting:***

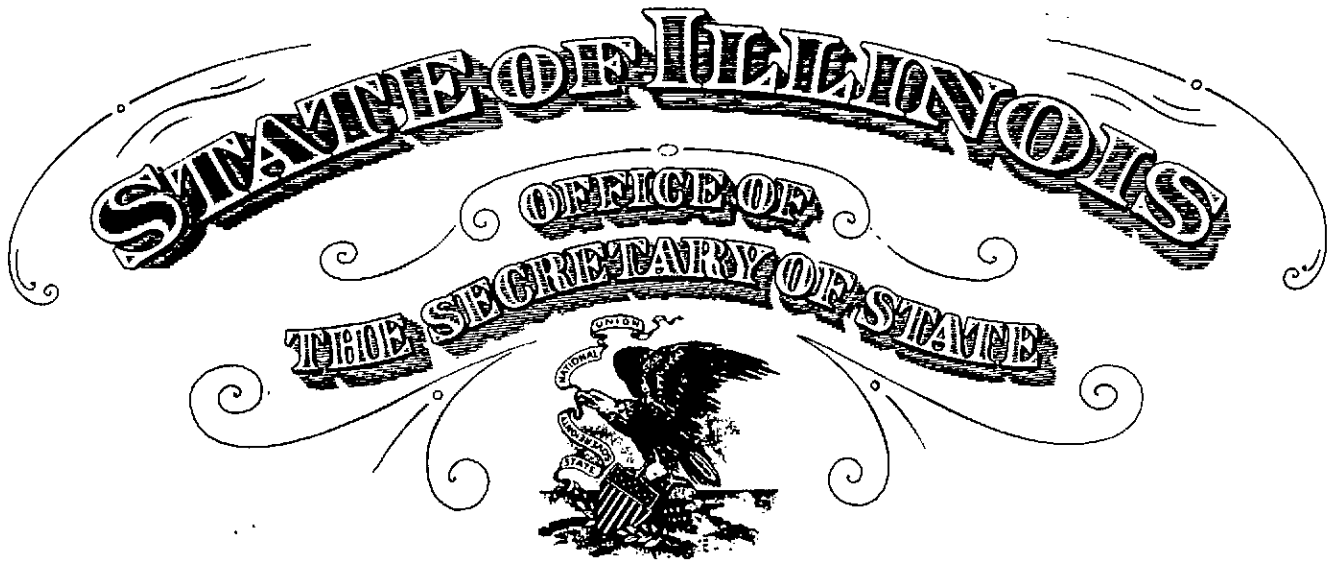
*I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that*

NORTHWEST COMMUNITY HOSPITAL, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON NOVEMBER 09, 1953, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.



***In Testimony Whereof, I hereto set  
my hand and cause to be affixed the Great Seal of  
the State of Illinois, this 25TH  
day of JANUARY A.D. 2018 .***

*Jesse White*



***To all to whom these Presents Shall Come, Greeting:***

*I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that*

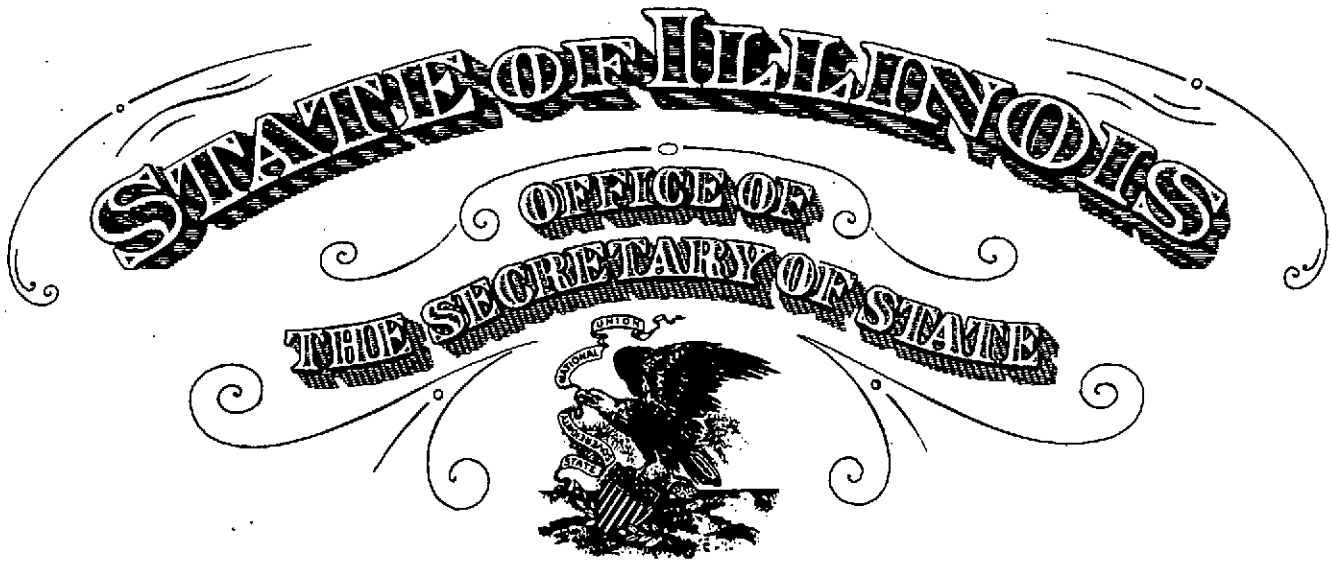
NORTHWEST COMMUNITY HEALTHCARE, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON FEBRUARY 11, 1981, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.



***In Testimony Whereof, I hereto set  
my hand and cause to be affixed the Great Seal of  
the State of Illinois, this 25TH  
day of JANUARY A.D. 2018 .***

*Jesse White*

SECRETARY OF STATE



***To all to whom these Presents Shall Come, Greeting:***

***I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that***

KILDEER MEDICAL BUILDING, LLC, HAVING ORGANIZED IN THE STATE OF ILLINOIS ON JANUARY 25, 2018, APPEARS TO HAVE COMPLIED WITH ALL PROVISIONS OF THE LIMITED LIABILITY COMPANY ACT OF THIS STATE, AND AS OF THIS DATE IS IN GOOD STANDING AS A DOMESTIC LIMITED LIABILITY COMPANY IN THE STATE OF ILLINOIS.



***In Testimony Whereof, I hereto set  
my hand and cause to be affixed the Great Seal of  
the State of Illinois, this 29TH  
day of JANUARY A.D. 2018 .***

*Jesse White*

## Site Ownership

1. Statement that the site for the Kildeer Ambulatory Care Center is under contract.
2. Legal Description of the Real Property.
- 3, Summary of terms of lease of space by Northwest Community Hospital in proposed ACC.

February 2, 2018

Ms. Courtney Avery  
Administrator  
Illinois Health Facilities and Services Review Board  
525 W. Jefferson St., 2<sup>nd</sup> floor  
Springfield, IL 62761

**Re: Kildeer Ambulatory Care Center Site**

Dear Ms. Avery:

Acquisition of the site for the Kildeer Ambulatory Care Center, located at 21481 N. Rand Road, Kildeer, IL 60047, is currently under contract. The closing date is scheduled for June 1, 2018, subject to extensions to obtain local and state governmental approvals, as required.

We are currently pursuing securing all governmental approvals required to permit the construction and operation of the building for its intended use.

If you have any questions, please contact me at 312.583.3711

Regards,



Mike O'Keefe  
Director, Healthcare Real Estate  
Navigant Consulting, Inc.

Acting as Agent for Kildeer Medical Building, LLC



## EXHIBIT A

### Legal Description of the Real Property

#### PARCEL 1:

A PARCEL IN THE SOUTH 1/2 OF SECTION 28, TOWNSHIP 43 NORTH, RANGE 10, EAST OF THE THIRD PRINCIPAL MERIDIAN, DESCRIBED AS FOLLOWS: BEGINNING AT THE POINT OF INTERSECTION OF THE EASTERLY LINE OF RAND ROAD WITH THE EAST/WEST CENTER LINE OF SAID SECTION 28; THENCE EAST ALONG THE SAID EAST/WEST CENTERLINE OF SECTION 28, 538.6 FEET; THENCE SOUTH AND PARALLEL TO THE NORTH/SOUTH CENTERLINE OF SAID SECTION 28, 163.18 FEET; THENCE SOUTHWESTERLY 402.70 FEET TO A POINT ON THE EASTERLY LINE OF RAND ROAD; THENCE NORTHWESTERLY ALONG SAID EASTERLY LINE OF RAND ROAD, 273.00 FEET TO THE POINT OF BEGINNING, (EXCEPT THAT PART THEREOF CONVEYED TO THE VILLAGE OF KILDEER BY DOCUMENT RECORDED AS DOCUMENT 2965421 DESCRIBED AS FOLLOWS: THE NORTH 40 FEET OF THE NORTHEAST 1/4 OF THE SOUTHWEST 1/4 OF SAID SECTION 28, LYING WESTERLY OF THE EAST LINE OF SAID NORTHEAST 1/4 OF THE SOUTHWEST 1/4 OF SECTION 28, AND EASTERLY OF THE EASTERLY LINE OF U.S. ROUTE 12), IN LAKE COUNTY, ILLINOIS.

#### PARCEL 2:

THAT PART OF THE SOUTHWEST 1/4 OF SECTION 28, TOWNSHIP 43 NORTH, RANGE 10, EAST OF THE THIRD PRINCIPAL MERIDIAN, LYING EASTERLY OF THE EASTERLY RIGHT OF WAY LINE OF U. S. ROUTE NO. 12 (RAND ROAD) AND LYING SOUTHERLY OF THE CENTERLINE OF THE RIGHT OF WAY OF CUBA ROAD, AND ALSO THAT PART OF THE SOUTH EAST 1/4 OF SECTION 28, TOWNSHIP 43 NORTH, RANGE 10, EAST OF THE THIRD PRINCIPAL MERIDIAN, LYING EASTERLY OF THE EASTERLY RIGHT OF WAY LINE OF U. S. ROUTE NO. 12 (RAND ROAD) AND LYING SOUTHERLY OF THE CENTERLINE OF THE RIGHT OF WAY OF CUBA ROAD, AND LYING WESTERLY OF THE WESTERLY LINE OF PINE VALLEY UNIT NO. 3, BEING A SUBDIVISION OF PART OF THE NORTHEAST 1/4 AND THE SOUTH EAST 1/4 OF SAID SECTION 28, ACCORDING TO THE PLAT THEREOF RECORDED ON MAY 16, 1969 IN BOOK 46 OF PLATS, PAGES 48 AND 49, AS DOCUMENT 1421640 AND ALSO LYING WESTERLY OF THE WESTERLY LINE OF PINE VALLEY UNIT NO. 4, BEING A SUBDIVISION OF PART OF THE SOUTH EAST 1/4 OF SAID SECTION 28, ACCORDING TO THE PLAT THEREOF RECORDED ON SEPTEMBER 5, 1972 IN BOOK 50 OF PLATS, PAGE 32, AS DOCUMENT 1576836, IN THE OFFICE OF RECORDER OF DEEDS, (EXCEPT THAT PART DESCRIBED AS FOLLOWS: BEGINNING AT THE POINT OF INTERSECTION OF THE EASTERLY LINE OF RAND ROAD WITH THE EAST/WEST CENTER LINE OF SAID SECTION 28; THENCE EAST ALONG THE SAID EAST/WEST CENTERLINE OF SECTION 28, 538.6 FEET; THENCE SOUTH AND PARALLEL TO THE NORTH/SOUTH CENTERLINE OF SAID SECTION 28, 163.18 FEET; THENCE SOUTHWESTERLY 402.70 FEET TO A POINT ON THE EASTERLY LINE OF RAND ROAD; THENCE NORTHWESTERLY ALONG SAID EASTERLY LINE OF RAND ROAD, 273.00 FEET TO THE POINT OF BEGINNING) IN LAKE COUNTY, ILLINOIS.

Commonly known as 21465 N. Rand Road, Kildeer, Illinois 60047

PIN: 14-28-300-101 (affects Parcel 1)

PIN: 14-28-300-023 (affects part of Parcel 2)

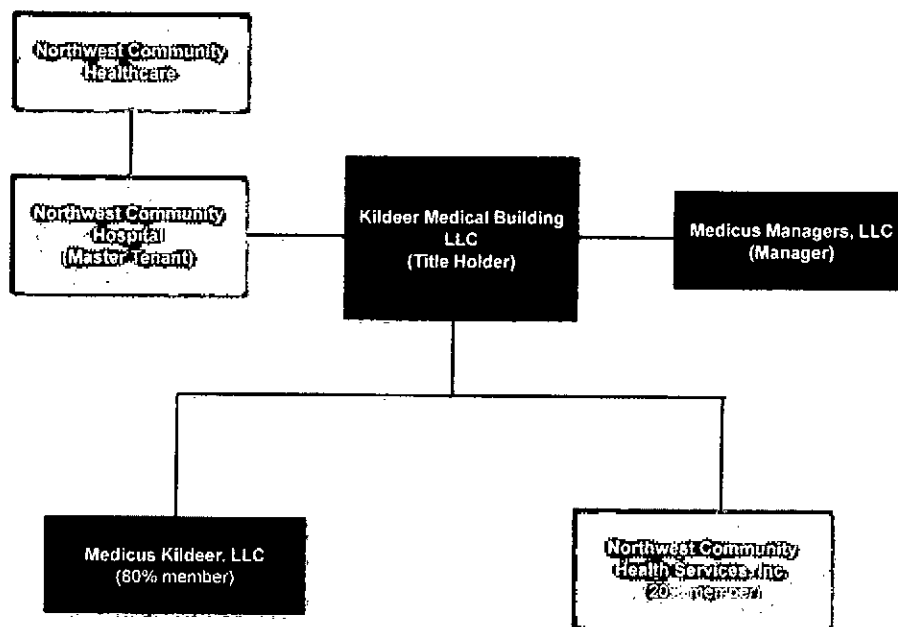
PIN: 14-28-400-010 (affects part of Parcel 2)

Attachment 2

Kildeer Ambulatory Care Center  
Summary of Lease Terms & Conditions  
February 1, 2018

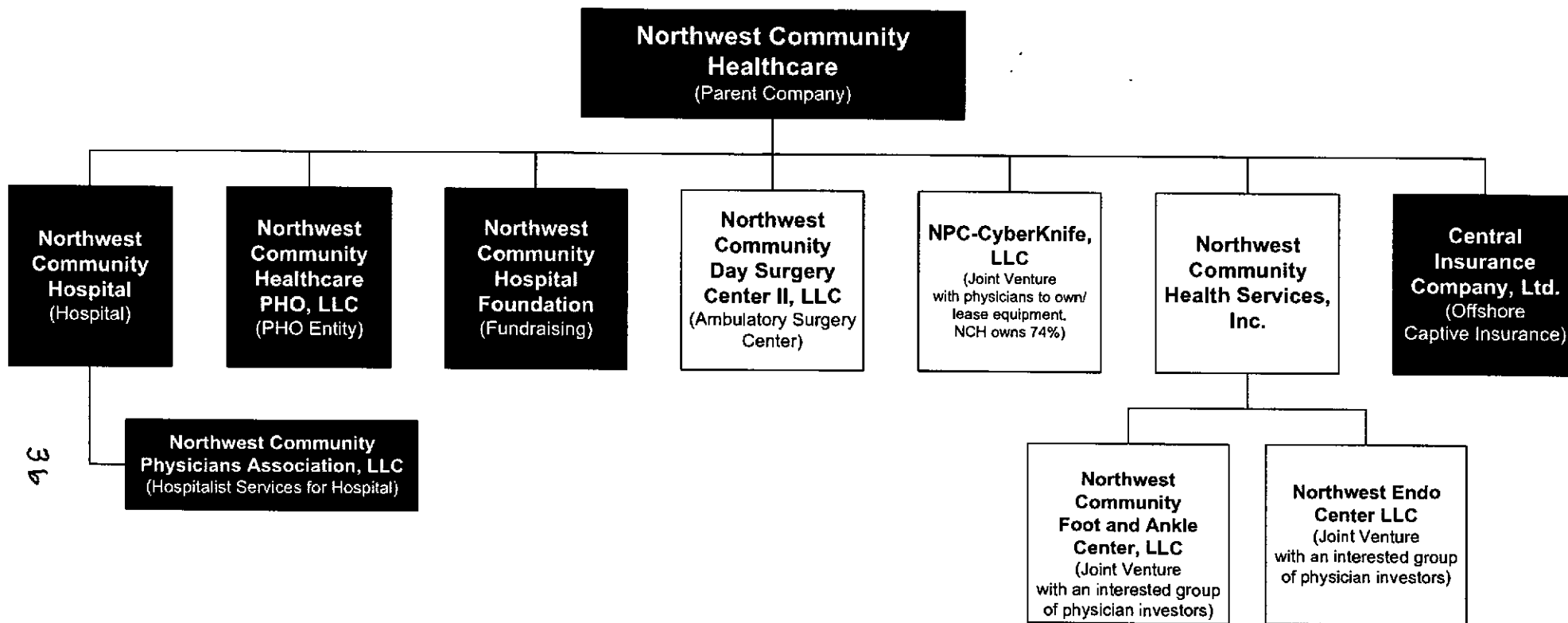
<b>Landlord:</b>	Kildeer Medical Building, LLC
<b>Tenant:</b>	Northwest Community Hospital
<b>Premises:</b>	An approximately 51,100 gross square foot building to be constructed on a 5.23-acre site commonly known as 21481 N. Rand Rd., Kildeer, IL 60047.
<b>Lease Term:</b>	Fifteen (15) years, commencing on the date the Premises are substantially complete.
<b>Renewal Options:</b>	Two (2) ten (10) year renewal options.
<b>Base Net Rent:</b>	Currently estimated to be approximately \$2,131,000 for the first lease year, subject to adjustment upon completion of the Premises based on final actual project costs.
<b>Annual Base Rental Increases:</b>	2.5%
<b>Operating Expenses and Taxes:</b>	Tenant shall be responsible for all operating expenses and real estate taxes.

## Organization Structure Kildeer Medical Building



# Northwest Community Healthcare & Subsidiaries

## Corporate Organizational Chart



36

Attachment 4

**Non-Profit Entity**

**For-Profit Entity**

November 2016

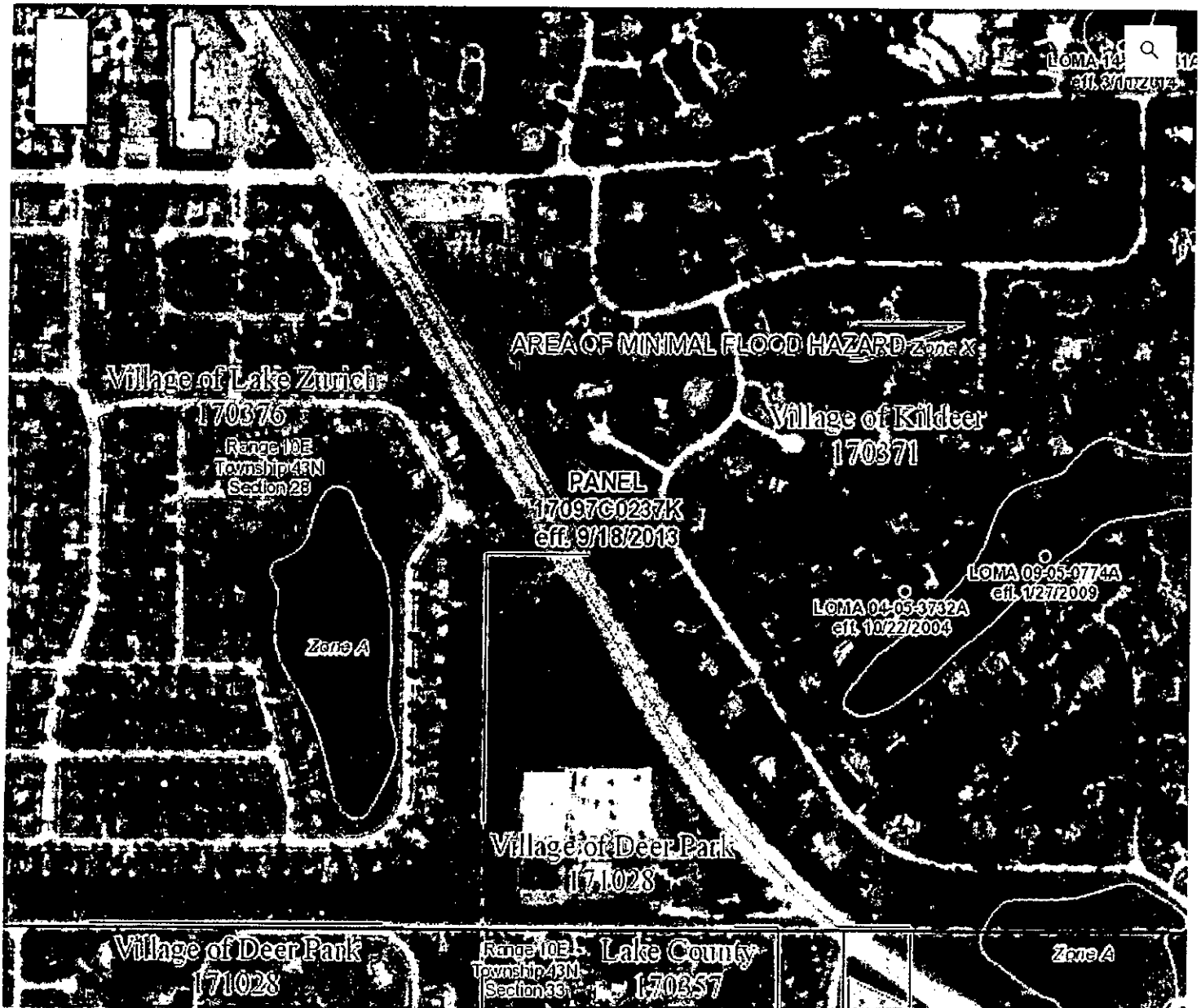


### Flood Plain Requirements

Evidence that the site is not located in a floodplain is shown on the map on the following page. The map shows in yellow the triangular site of the proposed project at 21481 N. Rand Road on the south side of Cuba Road, and the designation that the area is an Area of Minimal Flood Hazard.

The map is obtained from FloodPartners utilizing FEMA Flood Maps. The FEMA Flood Map Service Center is the official public service for flood hazard information produced in support of the National Flood Insurance Program (NFIP). The information is shown in FEMA Panel 17097C0237K.

As a result, the project complies with the requirements of Illinois Executive Order #2006-5.

[Home](#)[FEMA Flood Maps](#)[Flood Zone Review](#)[FEMA Determination](#)[LOMA](#)

Attachment 5

[Restart Search](#)



## Illinois Department of Natural Resources

One Natural Resources Way Springfield, Illinois 62702-1271  
www.dnr.illinois.gov

Bruce Rauner, Governor

Wayne A. Rosenthal, Director

FAX (217) 524-7525

Lake County

Kildeer

CON - Demolition and New Construction of an Ambulatory Care Center

21481 N. Rand Road

SHPO Log #010010918

January 30, 2018

Ralph Weber

920 Hoffman Lane

Riverwoods, IL 60015

Dear Mr. Weber:

This letter is to inform you that we have reviewed the information provided concerning the referenced project.

Our review of the records indicates that no historic, architectural or archaeological sites exist within the project area.

Please retain this letter in your files as evidence of compliance with Section 4 of the Illinois State Agency Historic Resources Preservation Act (20 ILCS 3420/1 et. seq.). This clearance remains in effect for two years from date of issuance. It does not pertain to any discovery during construction, nor is it a clearance for purposes of the Illinois Human Skeletal Remains Protection Act (20 ILCS 3440).

If you have any further questions, please contact me at 217/785-5031.

Sincerely,

Rachel Leibowitz, Ph.D.

Deputy State Historic

Preservation Officer

Attachment 6

## Project Costs and Sources of Funds

Complete the following table listing all costs (refer to Part 1120.110) associated with the project. When a project or any component of a project is to be accomplished by lease, donation, gift, or other means, the fair market or dollar value (refer to Part 1130.140) of the component must be included in the estimated project cost. If the project contains non-reviewable components that are not related to the provision of health care, complete the second column of the table below. Note, the use and sources of funds must be equal.

Project Costs and Sources of Funds			
USE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Preplanning Costs	\$14,816	\$108,651	\$123,467
Site Survey and Soil Investigation	\$3,525	\$25,850	\$29,375
Site Preparation	\$250,000	\$2,136,602	\$2,386,602
Off Site Work	\$128,160	\$939,840	\$1,068,000
New Construction Contracts	\$4,670,262	\$12,060,265	\$16,730,527
Modernization Contracts	\$0	\$0	\$0
Contingencies	\$443,675	\$1,145,725	\$1,589,400
Architectural/Engineering Fees	\$388,702	\$691,024	\$1,079,726
Consulting and Other Fees	\$908,260	\$1,614,685	\$2,522,945
Movable or Other Equipment (not in construction contracts)	\$3,829,250	\$675,750	\$4,505,000
Bond Issuance Expense (project related)	\$0	\$0	\$0
Net Interest Expense During Construction (project related)	\$444,302	\$789,869	\$1,234,171
Fair Market Value of Leased Space or Equipment	\$8,379,720	\$14,897,280	\$23,277,000
Other Costs to be Capitalized	\$804,672	\$1,430,528	\$2,235,200
Acquisition of Building or Other Property (excluding land)	\$0	\$0	\$0
<b>TOTAL USES OF FUNDS</b>	<b>\$20,265,344</b>	<b>\$36,516,069</b>	<b>\$56,781,413</b>
SOURCE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Cash and Securities	\$2,975,624	\$5,778,789	\$8,754,413
Pledges			
Gifts and Bequests			
Bond Issues (project related)			
Mortgages	\$8,910,000	\$15,840,000	\$24,750,000
Leases (fair market value)	\$8,379,720	\$14,897,280	\$23,277,000
Governmental Appropriations			
Grants			
Other Funds and Sources			
<b>TOTAL SOURCES OF FUNDS</b>	<b>\$20,265,344</b>	<b>\$36,516,069</b>	<b>\$56,781,413</b>
NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT 7 IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.			



## **Project Costs and Sources of Funds**

The following information provides detail regarding cost line items for the Project Costs and Sources of Funds table:

### **Preplanning Costs**

Costs include pre-design assessments, pre-construction fees, legal, zoning, environmental site assessment, initial traffic and parking studies, and operational planning services.

\$123,467 of which \$14,816 is Clinical

### **Site Survey and Soil Investigation**

This line item includes soil testing and survey work.

\$29,375 of which \$3,525 is Clinical

### **Site Preparation**

This work includes demolition of existing structures and slabs as well as backfilling of partial basement. Earthwork, erosion control, foundation excavation, site concrete, asphalt paving, site utilities and landscaping on the 5.5 acre site.

\$2,386,602 of which \$250,000 is Clinical

### **Off Site Work**

This work includes improvements to public streets and right-of-ways, including deceleration lanes as required.

\$1,068,000 of which \$128,160 is Clinical

### **New Construction contracts**

Construction of a two-story, 51,100 building gross sq ft facility. Costs include general conditions, masonry, steel, carpentry/wood/plastics, thermal and moisture protection, doors and windows, mechanical (plumbing, HVAC), electrical, fire alarm system.

\$16,730,527 of which \$4,670,262 is Clinical

### **Modernization contracts**

Not Applicable

**Contingencies**

\$1,589,400 in contingencies are 9.5% of the total \$16,730,527 new construction costs.

The \$443,675 contingency is also 9.5% of the clinical construction cost of \$4,670,262.

For the clinical component of the project, construction cost of \$273.79 per sq ft plus contingency of \$26.01 per sq ft is a total of \$299.80 per sq ft.

**Architect/Engineering fees**

This work includes preparation of schematic design, design development, construction documents, bidding and negotiation services, presentations at client and public meetings, and project management services.

\$1,079,726 of which \$388,702 is Clinical

**Consulting and other fees**

Certificate of need consulting / filing fees, commissioning consultant, lender fees, regulatory and permit fees, utilities during construction and builder's risk policy.

\$2,522,945 of which \$908,260 is Clinical

**Moveable or other Equipment**

The total equipment budget is \$4,505,000. Most of the clinical medical equipment is located in the imaging center:

MRI, including installation and shielding	\$1,700,000
CT scanner, installation with shielding	1,500,000
Radiology / x-ray	150,000
Mammography	160,000
DEXA bone densitometry	110,000
Ultrasound (2 units)	<u>150,000</u>
TOTAL	\$3,770,000

Additional equipment bringing the total to \$4,505,000 includes audiology testing, stress testing, EKG, gym therapy, POC/lab, and equipment supporting the exam rooms in the ICC and the physician office clinic areas.

\$4,505,000 of which \$3,829,250 is Clinical

**Bond Issuance Expense**

Not Applicable

**Net Interest Expense During Construction**

\$1,234,171 of which \$444,302 in interest is assigned to Clinical.

**Fair Market Value of Leased Space**

Northwest Community Hospital is leasing the entire building. The estimated fair market value of the leased space is \$23,277,000, based on the present value of rent over the 15 year term of the lease. Of the \$23,277,000, \$8,379,720 is assigned to the clinical component of the project.

**Other Costs to be Capitalized**

This line item refers to the cost of IT / Telecommunications -- computers, switch and cabling as well as FF&E including furniture, art and interior / exterior building signage.

IT is \$1,635,200

Furnishings is estimated at \$600,000, and includes: tables, chairs, conference rooms, staff lounge, waiting areas, desks and work stations, artwork, interior and exterior signage.

\$2,235,200 of which \$804,672 is Clinical

## Cost Space Requirements

Provide in the following format, the Departmental Gross Square Feet (DGSF) or the Building Gross Square Feet (BGSF) and cost. The type of gross square footage either DGSF or BGSF must be identified. The sum of the department costs **MUST** equal the total estimated project costs. Indicate if any space is being reallocated for a different purpose. Include outside wall measurements plus the department's or area's portion of the surrounding circulation space. Explain the use of any vacated space.

		Gross Square Feet		Amount of Proposed Total Gross Square Feet That Is:			
Dept. / Area	Cost	Existing	Proposed	New Const.	Modernized	As Is	Vacated Space
REVIEWABLE							
Imaging	\$1,892,520						
CT scan			1239	1239			
MRI			1446	1446			
X-ray			1032	1032			
Ultrasound			1583	1583			
Mammography			750	750			
Bone densitometry			709	709			
Stress testing, EKG,	1,268,850		4614	4614			
Card Rehab, Nucl Med							
Physical therapy	1,146,552		4343	4343			
Lab / draw station	362,340		1342	1342			
Total clinical	4,670,262		17058	17058			
NON REVIEWABLE							
Immediate Care	2,559,159		6319	6319			
Clinic/offices	5,959,185		14852	14852			
Building services	663,810		1526	1526			
Common circulation	897,835		2273	2273			
Wait, reg, restrooms	741,480		2004	2004			
Admin, staff areas	1,238,760		3348	3348			
Total Non-clinical	12,060,265		30322	30322			
Total Construction	16,730,527		47,380	47,380			
Other Project Costs							
Preplanning	123,467						
Site survey and soil investigation	29,375						
Site Preparation	2,386,602						
Off-site work	1,068,000						
Contingencies	1,589,400						
A/E fees	1,079,726						
Consulting and other fees	2,522,945						
Movable or other equipment	4,505,000						
Net interest expense during construction	1,234,171						
FMV leased space	23,277,000						
Other capitalized costs	2,235,200						
IT/low voltage furnishings							
Acquisition of building or other property	\$0						
Total Other Project Costs	40,050,886						
Total Prolect Costs	56,781,413						

APPEND DOCUMENTATION AS ATTACHMENT 9, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

## Background of the Applicant

This section (Attachment 11) includes the following:

- Listing of health care facilities owned or operated by the Applicant
- Licensing and certifications of the following facilities:
  - Northwest Community Hospital
  - Northwest Community Day Surgery Center
  - Northwest Endo Center
  - Northwest Community Foot and Ankle Center
- Letter regarding adverse actions and authorizing access to documents

## 1110.230 Background of Applicant, Purpose of the Project, and Alternatives

### Background of Applicant

Following is the list of healthcare facilities owned by Northwest Community Healthcare:

Northwest Community Hospital\*  
800 W. Central Rd.  
Arlington Heights, IL 60005

Northwest Community Day Surgery Center\*  
675 W. Kirchoff Road  
Arlington Heights, IL 60005

Northwest Endo Center\*  
1415 S. Arlington Heights Road  
Arlington Heights, IL 60005

Northwest Community Foot and Ankle Center\*  
1455 Golf Road Suite 134  
Des Plaines, IL 60016

Immediate Care Center in Buffalo Grove  
15 S. McHenry Road  
Buffalo Grove, IL 60089

Immediate Care Center in Lake Zurich  
1201 S. Rand Road  
Lake Zurich, IL 60047

Immediate Care Center in Mount Prospect  
199 W. Rand Road  
Mount Prospect, IL 60056

Immediate Care Center in Schaumburg  
519 S. Roselle Road  
Schaumburg, IL 60193

Lake Zurich Physical Rehab Center  
1249 S. Rand Road  
Lake Zurich, IL 60047

Wellness Center  
900 W. Central Road  
Arlington Heights, IL 60005

Outpatient Center in Rolling Meadows  
3300 Kirchoff Road  
Rolling Meadows, IL 60008

Occupational Wellness & Rehabilitation in Schaumburg  
455 S. Roselle Rd, Suite 205  
Schaumburg, IL 60193

Northwest Community Home Care  
3060 W. Salt Creek Lane  
Arlington Heights, IL 60005

\*Licenses for these facilities are included in this attachment.



**Illinois Department of  
PUBLIC HEALTH**

HF114561

**LICENSE, PERMIT, CERTIFICATION, REGISTRATION**

The person, firm or corporation whose name appears on this certificate has complied with the provisions of the Illinois statutes and/or rules and regulations and is hereby authorized to engage in the activity as indicated below.

**Nirav D. Shah, M.D.,J.D.**  
**Director**

Issued under the authority of  
the Illinois Department of  
Public Health

EXPIRATION DATE <b>12/31/2018</b>	CATEGORY	LIC NUMBER <b>0001701</b>
<b>General Hospital</b>		
<b>Effective: 01/01/2018</b>		

**Northwest Community Hospital**  
**800 West Central Road**  
**Arlington Heights, IL 60005**

The face of this license has a colored background. Printed by Authority of the State of Illinois • P.O. #48240 5M 5/16

← **DISPLAY THIS PART IN A  
CONSPICUOUS PLACE**

**Exp. Date 12/31/2018**

**Lic Number 0001701**

**Date Printed 11/21/2017**

**Validation Num**

**Northwest Community Hospital**

**800 West Central Road**  
**Arlington Heights, IL 60005**

**FEE RECEIPT NO.**

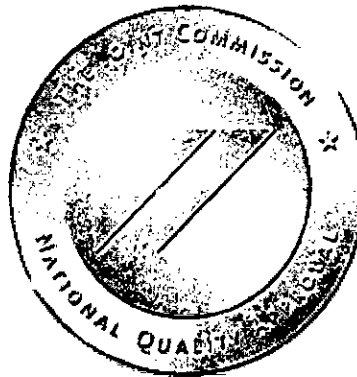
48



# Northwest Community Hospital

## Arlington Heights, IL

has been Accredited by




### The Joint Commission


Which has surveyed this organization and found it to meet the requirements for the  
Hospital Accreditation Program

October 21, 2017

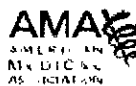
Accreditation is customarily valid for up to 36 months.

  
Craig W. Jones, FACHE  
Chair, Board of Commissioners

ID #4656  
Print/Reprint Date: 01/04/2018

  
Mark R. Chassin, MD, FACP, MPT, MPH  
President

The Joint Commission is an independent, not-for-profit national body that oversees the safety and quality of health care and other services provided in accredited organizations. Information about accredited organizations may be provided directly to The Joint Commission at 1-800-994-6610. Information regarding accreditation and the accreditation performance of individual organizations can be obtained through The Joint Commission's web site at [www.jointcommission.org](http://www.jointcommission.org).



This reproduction of the original accreditation certificate has been issued for use in regulatory/payer agency verification of accreditation by The Joint Commission. Please consult Quality Check on The Joint Commission's website to confirm the organization's current accreditation status and for a listing of the organization's locations of care.

DEPARTMENT OF HEALTH & HUMAN SERVICES  
Centers for Medicare & Medicaid Services  
Midwest Division of Survey and Certification  
Chicago Regional Office  
233 North Michigan Avenue, Suite 600  
Chicago, IL 60601-5519



---

CMS Certification Number (CCN): 14-0252

March 24, 2014

Stephen Scogna, Administrator  
Northwest Community Hospital  
800 West Central Road  
Arlington Heights, IL 60005

Dear Mr. Scogna:

This letter is to confirm when Northwest Community Hospital became certified for participation as a hospital in the Medicare program (Title XVIII of the Social Security Act). The effective date of participation is July 1, 1966.

If you have any questions, please contact Leontyne Blake at (312) 353-3256 or by email at [Leontyne.blake@cms.hhs.gov](mailto:Leontyne.blake@cms.hhs.gov).

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Potjeau".

Michael Potjeau  
Principal Program Representative  
Non-Long Term Care Certification  
& Enforcement Branch

cc: Illinois Department of Public Health  
Illinois Department of Healthcare & Family Services



**Illinois Department of  
PUBLIC HEALTH**

HF112597

**LICENSE PERMIT CERTIFICATION REGISTRATION**

The person, firm or corporation whose name appears on this certificate has complied with the provisions of the Illinois statutes and/or rules and regulations and is hereby authorized to engage in the activity as indicated below.

**Nirav D. Shah, M.D., J.D.**  
Director

Issued under the authority of  
the Illinois Department of  
Public Health

3/20/2018	CATEGORY	7001209
<b>Ambulatory Surgery Treatment Center</b>		
Effective: 03/21/2017		

Northwest Community Day Surgery Center  
675 West Kirchoff Road  
Arlington Heights, IL 60005

The face of this license has a colored background. Printed by Authority of the State of Illinois • P.O. #48240 5M 5/16

← DISPLAY THIS PART IN A  
CONSPICUOUS PLACE

Exp. Date 3/20/2018

Lic Number 7001209

Date Printed 1/23/2017

Northwest Community Day Surgery Ce

675 West Kirchoff Road  
Arlington Heights, IL 60005

FEE RECEIPT NO.

51

DEPARTMENT OF HEALTH & HUMAN SERVICES  
Centers for Medicare & Medicaid Services  
Midwest Division of Survey and Certification  
Chicago Regional Office  
233 North Michigan Avenue, Suite 600  
Chicago, IL 60601-5519



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CMS Certification Number (CCN): 14C0001032

April 3, 2014

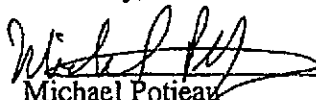
Roxanne Matias, Administrator  
Northwest Community Day Surgery Center II, LLC  
675 West Kirchoff Road  
Arlington Heights, IL 60005

Dear Ms. Matias:

This letter is to confirm when Northwest Community Day Surgery Center II, LLC became certified for participation as an Ambulatory Surgical Center (ASC) in the Medicare program (Title XVIII of the Social Security Act). The effective date of participation is April 12, 1988.

If you have any questions, please contact Leontyne Blake at (312) 353-3256 or by email at [Leontyne.blake@cms.hhs.gov](mailto:Leontyne.blake@cms.hhs.gov).

Sincerely,

  
Michael Potjeau  
Principal Program Representative  
Non-Long Term Care Certification  
& Enforcement Branch

cc: Illinois Department of Public Health  
Illinois Department of Healthcare & Family Services

# Northwest Community Day Surgery Center II, LLC

Arlington Heights, IL

has been Accredited by

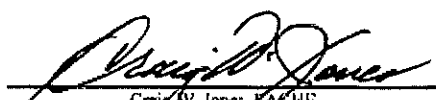


## The Joint Commission

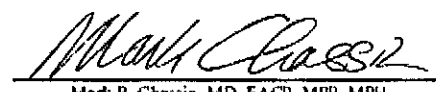
Which has surveyed this organization and found it to meet the requirements for the  
Ambulatory Health Care Accreditation Program

July 13, 2017

Accreditation is customarily valid for up to 36 months.

  
Craig W. Jones, FACHE  
Chair, Board of Commissioners

ID #558537  
Print/Reprint Date: 10/16/2017

  
Mark R. Chassin, MD, FACP, MPP, MPH  
President

The Joint Commission is an independent, not-for-profit national body that oversees the safety and quality of health care and other services provided in accredited organizations. Information about accredited organizations may be provided directly to The Joint Commission at 1-800-994-6610. Information regarding accreditation and the accreditation performance of individual organizations can be obtained through The Joint Commission's web site at [www.jointcommission.org](http://www.jointcommission.org).



This reproduction of the original accreditation certificate has been issued for use in regulatory payer agency verification of accreditation by The Joint Commission. Please consult Quality Check on The Joint Commission's website to confirm the organization's current accreditation status and for a listing of the organization's locations of care.



**Illinois Department of  
PUBLIC HEALTH**

HF115043

**LICENSE, PERMIT, CERTIFICATION, REGISTRATION**

The person, firm or corporation whose name appears on this certificate has complied with the provisions of the Illinois statutes and/or rules and regulations and is hereby authorized to engage in the activity as indicated below.

**Nirav D. Shah, M.D., J.D.**  
**Director**

Issued under the authority of  
the Illinois Department of  
Public Health

EXPIRATION DATE <b>2/6/2019</b>	CATEGORY	LIC NUMBER <b>7003210</b>
<b>Ambulatory Surgery Treatment Center</b>		
<b>Effective: 02/07/2018</b>		

**Northwest Endo Center LLC**  
**1415 S. Arlington Heights Road**  
**Arlington Heights, IL 60005**

The face of this license has a colored background. Printed by Authority of the State of Illinois • P.O. #48240 SM 5/16

← **DISPLAY THIS PART IN A  
CONSPICUOUS PLACE**

**Exp. Date 2/6/2019**

**Lic Number 7003210**

**Date Printed 1/22/2018**

**Validation Num 15677**

**Northwest Endo Center LLC**

**FEE RECEIPT NO.**

54

Attachment 11



ACCREDITATION  
ASSOCIATION  
*for AMBULATORY HEALTH CARE, INC.*

*grants this*

# CERTIFICATE OF ACCREDITATION

*to*

## NORTHWEST ENDO CENTER, LLC

1415 S. ARLINGTON HEIGHTS ROAD  
ARLINGTON HEIGHTS, IL 60005

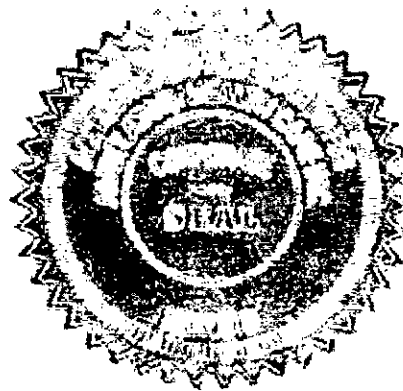
*In recognition of its commitment to high quality of care and substantial compliance  
with the Accreditation Association for Ambulatory Health Care standards for ambulatory health care organizations.*

117454

*Organization Identification Number*

KENNETH M. SADLER, DDS, MPA

*Chair of the Board*



JULY 6, 2020

*The Award of Accreditation expires on the above date*

MEENA DESAI, MD

*Past Chair of the Board*

### ASSOCIATION MEMBERS

ASCA Foundation • American Academy of Cosmetic Surgery • American Academy of Dental Group Practice • American Academy of Dermatology  
American Academy of Facial Plastic and Reconstructive Surgery • American Association of Oral and Maxillofacial Surgeons • American College of Gastroenterology  
American College Health Association • American College of Mohs Surgery • American Congress of Obstetricians & Gynecologists • American Dental Association  
American Gastroenterological Association • American Society of Anesthesiologists • American Society for Dermatologic Surgery Association  
American Society for Gastrointestinal Endoscopy • Association of periOperative Registered Nurses • Society for Ambulatory Anesthesia



5250 OLD ORCHARD ROAD, SUITE 200 • SKOKIE, IL 60077  
PHONE: 847/853.6060 • E-MAIL: INFO@AAAHC.ORG • WEB SITE: WWW.AAAHC.ORG



www.NGSMedicare.com

Provider Enrollment Part B, PO Box 6475, Indianapolis, IN 46206-6475

December 13, 2017

Northwest Endo Center LLC  
Attention: Carolyn Cekal  
3060 Salt Creek Lane  
Arlington Heights, IL 60005

Case Number: 222401622230416 CMS855B –

Dear Northwest Endo Center LLC:

We are pleased to inform you that your initial CMS855B application is approved. Listed below are your National Provider Identifier (NPI) and Provider Transaction Access Number (PTAN).

To start billing, you must use your NPI on all Medicare claim submissions. Because the PTAN is not considered a Medicare legacy identifier, do not report it as an "other" provider identification number to the National Plan and Provider Enumeration System (NPPES).

Your PTAN has been activated and will be the required authentication element for all inquiries to customer service representatives (CSRs), written inquiry units, and the interactive voice response (IVR) system. The IVR allows you to inquire about claims status, beneficiary eligibility and transaction information.

If you plan to file claims electronically, please contact our EDI department at 877-273-4334.

#### Medicare Enrollment Information

Provider\supplier Name:	Northwest Endo Center LLC
Practice location:	1415 S Arlington Hghts Rd Arlington Heights IL 60005-3765 Phone: 847-439-1005
National Provider Identifier (NPI):	1003260498
Provider Transaction Access Number (PTAN):	F300425574
Specialty:	Ambulatory Surgical Center
You are:	Participating



Effective Date:	October 01, 2016
Electronic Funds Transfer (EFT):	You will receive a separate notice within 20 days from the date of this letter.

Please verify the accuracy of your enrollment information.

You are required to submit updates and changes to your enrollment information in accordance with specified timeframes pursuant to 42 CFR §424.516. Reportable changes include, but are not limited to, changes in: (1) legal business name (LBN)/tax identification number (TIN), (2) practice location, (3) ownership, (4) authorized/delegated officials, (5) changes in payment information such as electronic funds transfer information and (6) final adverse legal actions, including felony convictions, license suspensions or revocations, an exclusion or debarment from participation in Federal or State health care program, or a Medicare revocation by a different Medicare contractor.

Providers and suppliers may enroll or make changes to their existing enrollment in the Medicare program using the Internet-based Provider Enrollment, Chain and Organization System (PECOS). Go to: [www.cms.hhs.gov/MedicareProviderSupEnroll](http://www.cms.hhs.gov/MedicareProviderSupEnroll).

Providers and suppliers enrolled in Medicare are required to ensure strict compliance with Medicare regulations, including payment policy and coverage guidelines. CMS conducts numerous types of compliance reviews to ensure providers and suppliers are meeting this obligation. Please visit the Medicare Learning Network at <http://www.cms.gov/Outreach-and-Education/Medicare-Learning-Network-MLN/MLNProducts/index.html> for further information about regulations and compliance reviews, as well as Continuing Medical Education (CME) courses for qualified providers.

Additional information about the Medicare program, including billing, fee schedules, and Medicare policies and regulations can be found at our Web site at [insert contractor's web address] or the Centers for Medicare & Medicaid Services (CMS) Web site at <http://www.cms.hhs.gov/home/medicare.asp>.

If you disagree with the effective date determination in this letter, you may request a reconsideration before a contractor hearing officer. The reconsideration is an independent review and will be conducted by a person who was not involved in the initial determination. You must request the reconsideration in writing to this office within 60 calendar days of the postmark date of this letter. The reconsideration must state the issues or findings of fact with which you disagree and the reasons for disagreement. You may submit the additional information with the reconsideration request that you believe may have a bearing on the decision. However, if you have additional information that you would like a hearing officer to consider during the reconsideration or, if necessary, an administrative law judge to consider



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during a hearing, you must submit that information with your request for reconsideration. This is your only opportunity to submit information during the administrative appeals process; you will not have another opportunity to do so unless an administrative law judge specifically allows you to do so under 42 CFR § 498.56(e).

The reconsideration request must be signed and dated by the physician, non-physician practitioner or any responsible authorized or delegated official within the entity. Failure to timely request a reconsideration is deemed a waiver of all rights to further administrative review.

The reconsideration request should be sent to:

National Government Services, Inc  
Provider Enrollment Part B  
PO Box 6475  
Indianapolis, IN 46206-6475

If you have any questions regarding the information above, call 877-908-8476 between the hours of 8:00 AM and 4:00 PM Monday through Friday.

Sincerely,

Provider Enrollment  
National Government Services, Inc.  
MA

**PECOS Web—your ticket to fast, secure, online enrollment <https://pecos.cms.hhs.gov>**

59



**Illinois Department of  
PUBLIC HEALTH**

HF113889

**LICENSE, PERMIT, CERTIFICATION, REGISTRATION**

The person, firm or corporation whose name appears on this certificate has complied with the provisions of the Illinois statutes and/or rules and regulations and is hereby authorized to engage in the activity as indicated below.

**Nirav D. Shah, M.D., J.D.**  
**Director**

Issued under the authority of  
the Illinois Department of  
Public Health

EXPIRATION DATE	CATEGORY	I.D. NUMBER
7/13/2018		7003213
<b>Ambulatory Surgery Treatment Center</b>  <b>Effective: 07/14/2017</b>		

**Northwest Community Foot and Ankle Center, LLC**  
**1455 Golf Road**  
**Des Plaines, IL 60016**

The face of this license has a colored background. Printed by Authority of the State of Illinois • P.O. #48240 5M 5/16

← DISPLAY THIS PART IN A  
CONSPICUOUS PLACE

**Exp. Date 7/13/2018**

**Lic Number 7003213**

**Date Printed 7/14/2017**

**Northwest Community Foot and Ankle**

**FEE RECEIPT NO.**



Excellence  
Starts Here

800 West Central road  
Arlington Heights, IL 60005

847-618-1000  
nch.org

January 31, 2018

Ms. Kathryn J. Olson  
Chairperson  
Illinois Health Facilities and Services Review Board  
525 West Jefferson St, 2<sup>nd</sup> Floor  
Springfield, IL 62761

Dear Ms. Olson,

As President of Northwest Community Healthcare, I hereby certify that no adverse action has been taken against Northwest Community Hospital or Northwest Community Healthcare, directly or indirectly, within three years prior to the filing of this application. For the purpose of this letter, the term "adverse action" has the meaning given to it in the Illinois Administrative Code, Title 77, Section 1130.

I hereby authorize the Health Facilities and Services Review Board and IDPH to access any documentation which it finds necessary to verify any information submitted, including but not limited to: official records of IDPH or other State agencies and the records of nationally recognized accreditation organizations.

If you have any questions, please call Brad Buxton, Vice President, Strategy and Business Development, at 847-618-5020.

Sincerely,

Stephen O. Scogna  
President  
Northwest Community Healthcare  
800 West Central Road  
Arlington Heights, IL 60005

Cc: Brad Buxton, Vice President, Strategy & Business Development

Attachment 11

## Purpose of the Project

Northwest Community Hospital has a long history of serving the northwest suburbs, since its establishment in 1959. In order to remain an independent hospital, it has maintained an excellent reputation for high quality, cost effective care. While providing a large volume of inpatient services, it has also transitioned care to the outpatient setting, both at the main hospital campus in Arlington Heights, and at 10 outpatient centers at locations up to 20 miles from the main hospital. Medical care is provided by NCH employed physician members of the Northwest Community Health Services (NCHS).

The proposed ambulatory care center, a joint venture development by Northwest Community Hospital through its affiliation with Kildeer Medical Building LLC, is a further extension of outpatient health care.

### 1. Document that the project will provide health services that improve health care or well-being of the market area population to be served.

Northwest Community Health Services (NCHS) has grown from a complement of 31 employed physicians in 2010 to 155 physicians in 2017. 66 are primary care physicians, 37 are specialists; the remaining 54 are either hospital based or contracted (hospitalists, pathologists, radiologists, emergency care physicians). These 103 primary care and specialty physicians provide staffing at the hospital and outpatient centers on a rotational basis. The rate of growth of these outpatient practices is accelerating. In 2011, NCHMG added 840 new patients per month. By 2017, this growth rate had almost tripled to a level of over 2300 new patients per month. In order to keep up with the increased demand for care, NCHS is planning to continue expansion of the practices by adding primary care and specialty physicians. Demand for specialty visits is significant. During the past year, outpatient growth in oncology was 14%; 18% in cardiovascular, 10% in orthopedics, 12% in neuroscience, and 9% in digestive disorders.

An increasing part of the demand for these services comes from north suburban areas including Lake Zurich, Kildeer, Long Grove, Deer Park, Barrington, Buffalo Grove and Palatine. These are the communities that will be primarily served by the proposed new ambulatory care center in Kildeer. The opening of physician practice offices responds to the increasing demand and growing need for NCH physicians in this geographic area.

The project will also replace the existing urgent care center which NCH operates at 1201 S. Rand Road, less than a half mile from the proposed project. Urgent care visits to physicians at the center increased from 4,453 in 2012 to 12,037 in 2017. In addition to the 12,037 visits, there was in 2017 a volume of about 7900 additional services – lab tests, x-ray, EKG exams, ancillary tests, immunizations, physicals, workers comp injury care, and other miscellaneous services. The total count of these visits and services in 2017 was 19,942.

### 2. Define the planning area or market area, or other relevant area, per the applicant's definition.

The table on the next page shows the zip codes in the primary and secondary service areas for the proposed ambulatory care center. A total of 74,500 visits are projected to the physician practices at the ACC. 55,875 of patient visits (75% of total visits) to physicians at the ACC will be drawn from five zip codes: 60047, 60010, 60067, 60074 and 60089. The total population of these zip codes is 215,578. The 5 zip code area is defined as the Planning Area for this project.

**Projected Volume of Physician Office Visits, Kildeer Ambulatory Care Center  
Year 2022**

zip code	community	Current Population	Current ICC at 1201 Rand Rd		ACC utilization - Yr 2022	
			2017 visits	% distribution	Adjusted Distribution	Projected Volume
<i>Primary Service Area</i>						
60047	Lake Zurich	44,099	5,958	49.5	35.0	26,075
	Kildeer					
	Long Grove					
	Hawthorn Woods					
60010	Barrington	46,851	3,984	33.1	20.0	14,900
	Barrington Hills					
	Inverness					
	Tower Lakes					
60067	Palatine	41,032	1,095	9.1	10.0	7,450
	Hoffman Estates					
60074	Palatine	40,675	650	5.4	8.0	5,960
60089	Buffalo Grove	42,921	72	0.6	2.0	1,490
Total Primary Service Area		215,578	11,759	97.7	75.0	55,875
<i>Secondary Service Area</i>						
60004	Arlington Heights	52,655				
60005	Arlington Heights	30,958				
60192	Hoffman Estates	16,748				
60008	Rolling Meadows	23,551				
60056	Mount Prospect	58,856				
60090	Wheeling	40,004				
60195	Schaumburg	5,138				
60193	Schaumburg	40,267				
60194	Schaumburg	20,814				
60173	Schaumburg	13,490				
60169	Hoffman Estates	35,620				
60007	Elk Grove Village	34,727				
60070	Prospect Heights	16,943				
60084	Wauconda	16,771				
Total Secondary Service Area		406,542	278	2.3	25.0	18,625
TOTAL SERVICE AREAS		622,120	12,037	100.0	100.0	74,500

The remaining 18,625 visits (25% of total) will be drawn from a 14 zip code secondary service area mostly to the south of the primary service area. The population of this secondary service area is 406,542.

The projected patient origin is based on the residences of 12,037 patients who visited NCH's immediate care center at 1201 S. Old Rand Road in Lake Zurich in Fiscal Year 2017 (ending September 30, 2017). The ICC location is proximate to the proposed ACC site. As a result, patient origin data for the existing ICC is used as a surrogate to forecast patient origin for the planned ACC. Because the ICC provides urgent care service exclusively (no physician offices are at this site), the ICC has a more concentrated service area than the ACC will have. (For example, while 49.5% of the patients at the ICC come from 60047, a lesser percentage, estimated at 40% will come from 60047.) While less than 3% of patients at the ICC come from outside the 5 zip code planning area, a larger percentage (25%) of patients coming to the ACC will reside outside the planning area, due to the offering of a broader range of clinical services planned at the new center.

3. Identify the existing problems or issues that need to be addressed as applicable and appropriate for the project.

NCH's existing immediate care center at 1201 S. Rand Rd, Lake Zurich, is out of capacity. It has grown from 4,453 visits in 2012 to 12,037 visits in 2017. Waiting times have increased and patients occasionally leave without being seen due to high volume at concentrated times. The ICC at the proposed ambulatory care center will have 9 rooms for seeing patients, significantly expanding the capacity of the existing urgent care center.

There is a need for more physicians in the 5 zip code Planning Area to serve existing NCH patients residing in the area. That is a current issue, and will be exacerbated with the planned retirement over the next five years of 35 of the 155 physician members of NCHMG. The establishment of an ambulatory care center with offices for 16 primary care and specialty care physicians brings outpatient services closer to NCH patients residing in the area. This center also supports the physician practices and facilitates and improves access to care by providing diagnostic and treatment services in an outpatient setting. Convenient and accessible outpatient care has been shown to prevent inpatient hospitalizations through early detection and treatment. That is expected as a result of this project.

Finally, charge rates at the ACC will be ambulatory rates, which are about 30% lower than outpatient rates charged at the hospital campus. This is very beneficial to patients who are increasingly responsible for a higher percentage of payment for care. The lower charges are attributed to the lower cost setting at the ambulatory care center compared to the hospital campus.

4. Cite the sources of the documentation.

- Northwest Community Hospital Annual Hospital Questionnaire
- Sg2 Analytics
- Northwest Community Hospital medical records
- Zipcode.com, population by zip code
- Northwest Community Health Services (NCHS) records

5. Detail how the project will address or improve the previously referenced issues, as well as the population's health status and well being.

The new Ambulatory Care Center will offer all ambulatory services at professional rates versus current hospital outpatient rates, providing better access and affordability to the community. Other positive impacts on improving health care delivery and the health status and well being of the planning area's population are covered in #3 above.

6. Provide goals with quantified and measurable objectives, with specific timeframes that relate to achieving the stated goals as appropriate.

Objectives of the project are as follows:

- a. Accommodate 74,500 outpatient visits to physicians officed at the center in year 2022.
- b. Accommodate 18,500 visits at the expanded immediate care center in the project in year 2022.
- c. Open the new facility for patient service by March 31, 2020.
- d. Offer full service ambulatory care – physician office visits, immediate care, full service ambulatory imaging, a lab draw station for some point of care testing on site, and physical therapy.
- e. Offer occupational health programs for local businesses.



## Alternatives

Several options were considered before the decision was made to select the development of an ambulatory care center at 21481 N. Rand Road in suburban Kildeer:

1. Expand the existing acute care center nearby at 1201 S. Rand Road, Lake Zurich.
2. Build the ambulatory care center at another site, such as 24404 N Rand Road (Wynstone development), with size and program components similar to the proposed project.
3. Build the ambulatory care center project with Northwest Community Hospital as sole developer and owner, without a joint venture partner involved in funding the capital project.
4. Build a larger facility than the proposed 51,100 sq ft building.
5. Do nothing

### Alternative 1: Expand the existing acute care center at 1201 S. Rand Road, Lake Zurich.

Since 2012, Northwest Community Hospital has leased 6,331 sq ft of space and operated an immediate care center in a strip shopping mall at 1201 S. Rand Road, a location near the proposed project site. Volume has consistently increased at the center, with 12,037 ICC visits in 2017. Consideration was given to increasing the scale of the center by 30,000 sq ft by expanding into adjacent stores. This is the minimum addition needed to add exam rooms for immediate care, offices with exam rooms for primary care and specialty physicians, and expanded imaging services consistent with the program. The cost of this project would be at least \$40 million for leasing, building out and equipping the additional space.

This option was rejected because there is no opportunity to take over adjacent space in order to enlarge the facility.

### Alternative 2: Build an ambulatory care center on another site, such as 24404 N. Rand Road (Wynstone development), with size and program components similar to the proposed project.

Several other locations were considered in the pre-planning stage. The most comparable and favorable alternative site is three miles to the north at 24404 N. Rand Road. The total project cost would be the same as the preferred alternative at 21481 N Rand Road. There is no cost advantage to the Wynstone site.

Alternative sites were not selected because of the superior visibility and accessibility of the selected site. Rand Road / Route 12 is a 4 land divided limited access highway. The preferred site is at the intersection of Rand Road and Cuba Road, with a fully signalized intersection now in place.

Alternative 3: Build an ambulatory care center with Northwest Community Hospital as the sole developer and owner, without a joint venture partner involved in funding the capital project.

For the proposed project, the joint venture partner brings a significant capital investment to accomplish the project. Without the partner, NCH's additional capital requirement would exceed \$20,000,000. NCH's future programmatic plans and facility projects require significant capital investment. The benefit of involving a business partner to share in the cost of the ambulatory care center project preserves NCH capital for other necessary projects. The option of NCH funding the full capital cost of was rejected, due to the higher capital commitment associated with such an approach.

Alternative 4: Build a larger facility than the proposed 51,100 sq ft (bgsf) building.

Consideration was given to building a facility for a larger complement of physician offices for primary care and specialists at the site. However, the current project is sized to accommodate market need in the area for NCH affiliated physicians. Based on planning in support of the project, no additional diagnostic or treatment services are needed in the area at this time. A larger facility with an expanded immediate care center and additional physician offices and exam rooms would add between \$3 to \$10 million in capital cost. This option was rejected as not being as efficient as the proposed project.

Alternative 5: Do nothing

Continued operation of the limited services urgent health care center at 1201 N. Rand Road will not offer the growing area population the full array of needed ambulatory care services at more affordable rates. The current center is out of capacity, and is not able to accommodate growing demand by residents of the area. As a result, residents in the 5 zip code area travel greater distances for their NCH physician visits and other outpatient services. The project also extends the system of Northwest Community Healthcare into the northern part of its service area to serve all health needs. The option of Doing nothing was rejected because of the limited scope and capacity of the urgent care center at 1201 N. Rand Road.

# 1110.234 Project Size, Utilization and Unfinished / Shelled Space

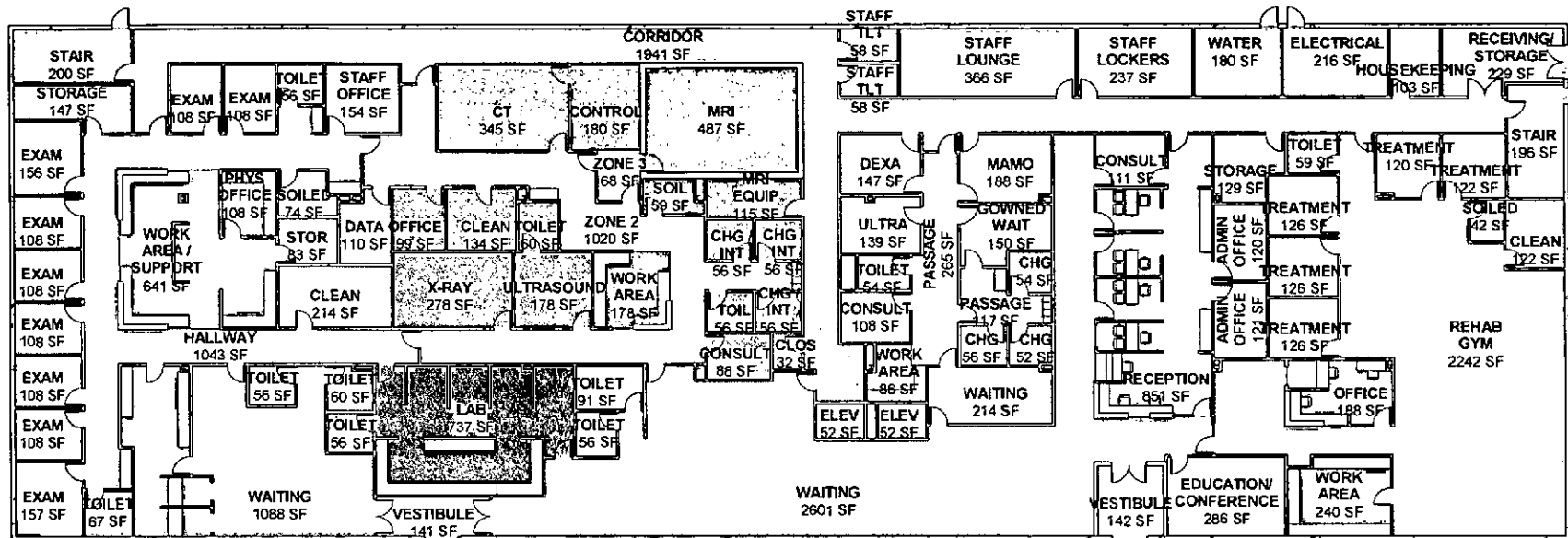
## Size of the Project

The project is new construction of a two story ambulatory care center with 51,100 building sq ft. Departmental gross square feet (dgsf) totals 47,380 sq ft. The distribution of space is shown on the table below. All clinical services meet established space standards.

Floor plans on the next page show the distribution of space.

There is no shelled space in the proposed project.

Department/Service	Proposed DGSF	State Standard (dgsf)	Difference	Met Standard?
Imaging				
CT Scan	1,239	1,800	561	Yes
MRI	1,446	1,800	354	Yes
X-ray	1,032	1,300	268	Yes
Ultrasound	1,583	2 x 900 = 1800	217	Yes
Mammography	750	900	150	Yes
Bone densitometry	709			
Stress test	1,268			
EKG	575			
Cardiac rehab	1,850			
Nuclear Medicine	921			
Physical therapy	4,343			
Lab / draw station	1,342			
Immediate Care				
exam	4,016	9 x 800 = 7,200	3,184	Yes
work station/offices	2,303			
Clinic exam rooms	14,852	35x 800 = 28,000	13,148	Yes
Other space				
Building services	1,526			
Common circulation	2,273			
Waiting, reg, restrms	2,004			
Admin, staff areas	3,348			
Total dgsf	47,380			

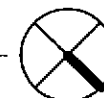


# Department Legend

- |                |        |                |
|----------------|--------|----------------|
| CIRCULATION    | LAB    | WDMEN'S CENTER |
| DIAGNOSTIC     | REHAB  | ZONE 2         |
| IMMEDIATE CARE | SHARED | ZONE 3         |

0 3 6 30

## 1 FIRST FLOOR PLAN 1" = 30'-0"



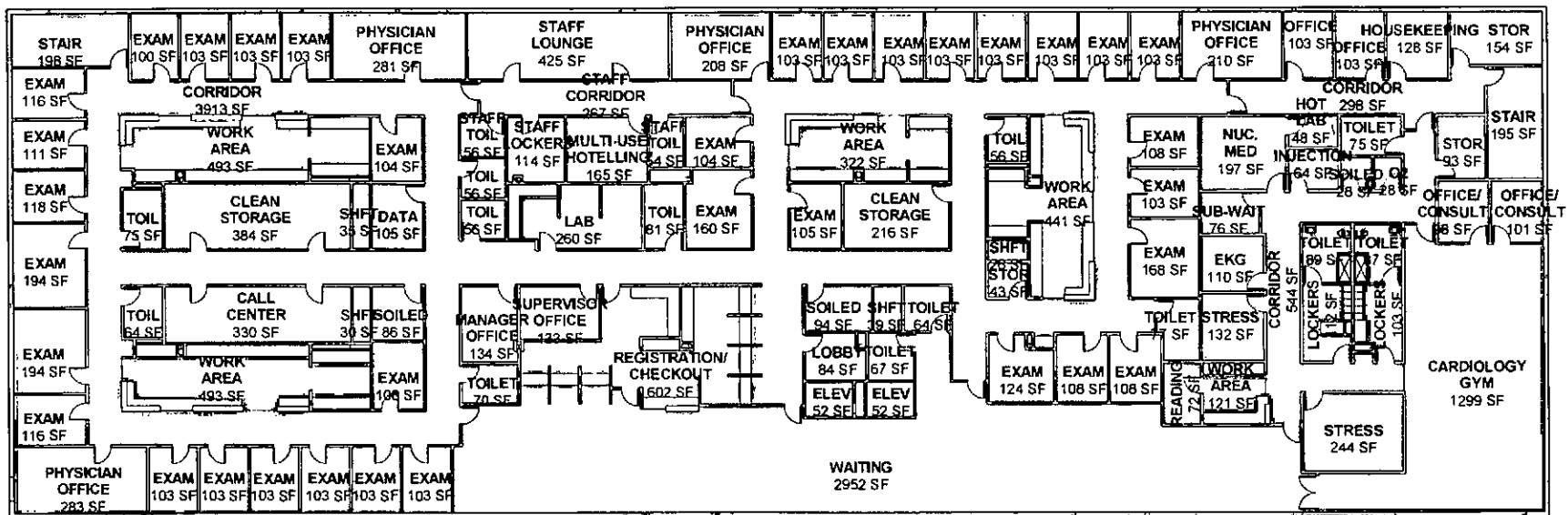
ATTACHMENT 14



JENSEN & HALSTEAD, LTD.  
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AMBULATORY CARE CENTER KILDEER, ILLINOIS

ASK-1.1  
LC117035  
01/29/18



69

ATTACHMENT 14



JENSEN & HALSTEAD, LTD.  
ARCHITECTURE • PLANNING • INTERIORS

AMBULATORY CARE CENTER KILDEER, ILLINOIS

## PROJECT SERVICES UTILIZATION

The Ambulatory Care Center will house exam rooms in support of the primary care and specialty physician practices, an immediate care center, imaging, lab, cardiology, physical therapy, and cardiac rehab. All of these services are newly established, except for the immediate care center with its exam rooms, limited x-ray, EKG and lab draw services. These urgent care functions will be relocated from the NCH urgent care center at 1201 S Rand Road, Lake Zurich.

Volumes for visits to the immediate care center at the ACC are projected from the visit volumes at the urgent care center at 1201 S. Rand Road. A designation of "NA" in the historic utilization columns indicates that those services do not exist in the urgent care center. Volume projections for other services are based on the experience at similar NCH centers at Buffalo Grove and Mt Prospect. Additional information on projections is provided in Attachment 31.

For those services for which there are utilization standards, the table shows those standards. CON minimum standards apply only when more than one unit is proposed. For the ACC, all of the imaging modalities with the exception of ultrasound have only one unit. The ultrasound service includes two machines – one standard, and one ABUS. The volume forecast of 3500 ultrasound visits in year 2022 exceeds the standard for one unit, and therefore supports the need for the second ultrasound machine.

		Utilization					
Department/	# units	Historic (1201 Rand Rd)		Projected		State Standard	Met Standard?
Service		2016	2017	2021	2022		
Imaging							
CT scan	1	NA	NA	1,800	2,500	7,000 visits	Yes
MRI	1	NA	NA	1,400	2,000	2,500 proced	Yes
X-ray	1	1,456	1,706	5,250	7,500	8,000 proced	Yes
Ultrasound	2	NA	NA	2,450	3,500	3,100 visits	Yes
Mammography	1	NA	NA	2,100	3,000	5,000 visits	Yes
Bone densitometry	1	NA	NA	1,960	2,800		
Stress Test	2	NA	NA	1,820	2,600		
EKG	1	148	211	2,200	3,200		
Cardiac rehab	1	NA	NA	1,610	2,300		
Nuclear Medicine	1	NA	NA	800	1,100		
Physical Therapy	1	NA	NA	5,800	8,300		
Lab / draw station	1	5,447	5,983	45,500	65,000		
Immediate Care							
exam	9	10,701	12,037	16,950	18,500	2,000 vis/rm	Yes
work sta/offices	7						
Clinic exam rooms	35	NA	NA	52,500	74,500	2,000 vis/rm	Yes

**M. Criterion 1110.3030 - Clinical Service Areas Other than Categories of Service**

1. Applicants proposing to establish, expand and/or modernize Clinical Service Areas Other than categories of service must submit the following information:

2. Indicate changes by Service: Indicate # of key room changes by action(s):

Service	# Existing Key Rooms	# Proposed Key Rooms
CT scan	0	1
MRI	0	1
X-ray	0	1
Ultrasound	0	2
Mammography	0	1
Bone densitometry	0	1
Stress test	0	2
EKG	0	1
Cardiac Rehab	0	1
Nuclear medicine	0	1
Physical Therapy	0	1
Lab / draw station	0	1
Immediate Care exam rooms	0	9
Clinic exam rooms	0	35

## 1110.3030 Clinical Service Areas other than Categories of Service

### 1110.303 (b) (1) and (3) Background of the Applicant

This information is provided in Attachments 1, 3, 4 and 11.

### 1110.3030 (c) Need Determination – Establishment

The Ambulatory Care Center contains several clinical programs that are not categories of service:

- Diagnostic Imaging
- Physical Therapy
- Lab / draw station
- EKG, cardiac stress testing, cardiac rehab and nuclear medicine

Other services to be offered in the ACC are not considered "clinical services," consistent with previously reviewed permit applications. These include immediate care, and exam rooms for physicians with offices at the ACC.

#### 1. Service to Planning Area Residents

For the Ambulatory Care Center, the Planning Area is defined (Purpose of the Project section) as 5 zip codes, with a resident population of 215,578. The Planning Area is the source of 75% of visits to the ACC. As a result, it can be stated that more than 50% of ACC patients reside in the Planning Area. The majority of these patients are already patients of NCH primary care and specialty physicians. Because the clinical services delivered at the ACC are provided and ordered by NCH physicians officed at the ACC, more than 50% of all clinical services will be for residents of the Planning Area.

The remaining 25% of patients reside in 14 zip codes that comprise the secondary service area. This area has a resident population of 406,542.

#### 2. Service Demand

Many of the projected utilization volumes for clinical services are driven by the projected number of visits to physicians officed at the ACC. The model for primary care and specialty physicians to be located at the ACC is based on the existing NCH outpatient center in Buffalo Grove at Lake Cook Road and Route 83, and in Mt. Prospect. At Buffalo Grove, physicians see an average of 4,655 patient visits per physician per year. Based on this experienced rate, the 16 FTE physician offices at the Kildeer ACC are expected to accommodate 74,480 annual visits in year 2022, two years after project completion, rounded to 74,500.

This volume is in addition to the projected utilization of the immediate care center. The ICC volumes at the ACC are forecasted based on the utilization of NCH's urgent care center at 2102 S Rand Road in Lake Zurich, less than ½ mile from the in ACC site. Physician visit volumes at the urgent care center were 12,037 in year 2017, a 13% increase from 10,701 visits in 2016. The increase is 171% over the 4,453 visits at the ICC in 2012, an average annual increase of 34% for the five years. A more conservative annual growth rate of about 9% - 10% for ICC visits for the next 5 years results in a year 2022 forecast of 18,500 visits, a 53% increase from 12,037 visits in 2017.



74,500 visits to physician offices plus 18,500 visits to the ICC is a total of 93,000 exam visits to the ACC in year 2022, two years after project completion. 2022 will be the first year that there is a full complement of 16 physicians. The physician count in year 2021, first full year after project completion, will be between 10 and 11 FTE physicians.

Projected utilization of the individual clinical services and equipment modalities are based on the actual utilization of those services at various NCH outpatient centers. Incidence of tests as a percentage of total exam visits to physician offices and urgent care determine ratios that can be applied to the projected volume of 93,000 exam visits forecast at the ACC in year 2022. For example, 69.9% of visits result in a pathology lab order. 70% of 93,000 visits = 65,000. In like manner, ratios related to actual incidence of testing at existing NCH centers results in projected utilization for all other services and equipment at the ACC.

The projected 8300 physical therapy visits are based on a similarly sized operation in Mt Prospect. At Mt Prospect there were 163 appoints in an average week, for a total of 8,476 PT visits for the year.

### 3. Impact of the project on other area providers

The majority of projected patients that will receive service at the ACC are currently patients at Northwest Community Hospital or NCH outpatient centers. The proposed ACC brings these services closer to their homes in the 5 zip code Planning Area and surrounding zip codes. As a result it is not expected that there will be disruption of other physician existing office practices or other provider's immediate care center volumes.

### 4. Utilization

The following volumes are anticipated in year 2022 at the Ambulatory Care Center for clinical service areas other than categories of service. All are consistent with State utilization standards, as shown in the table in the Project Services Utilization section, Attachment 15.

#### Imaging

CT scan	2,500 visits
MRI	2,000 procedures
X-ray	7,500 procedures
Ultrasound (2)	3,500 visits
Mammography	3,000 visits
Bone densitometry	2,800 procedures

Physical Therapy            8,300 visits

Lab / draw station        65,000 tests

#### Other non-clinical services:

Stress tests	2,600 tests
EKG	3,200 tests
Cardiac Rehab	2,300 visits
Nuclear Medicine	1,100 procedures
Immediate Care	18,500 visits
Clinic office	74,500 visits

Attachment 31

CONSOLIDATED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

Northwest Community Healthcare and Subsidiaries  
Years Ended September 30, 2017 and 2016  
With Reports of Independent Auditors

Ernst & Young LLP



Building a better  
working world

Northwest Community Healthcare and Subsidiaries  
Consolidated Financial Statements and Supplementary Information  
Years Ended September 30, 2017 and 2016

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Ernst & Young LLP  
155 North Wacker Drive  
Chicago, IL 60606-1787

Tel: +1 312 879 2000  
Fax: +1 312 879 4000  
ey.com

## Report of Independent Auditors

The Audit and Compliance Committee and the Board of Directors  
Northwest Community Healthcare and Subsidiaries

We have audited the accompanying consolidated financial statements of Northwest Community Healthcare and Subsidiaries, which comprise the consolidated balance sheets as of September 30, 2017 and 2016, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northwest Community Healthcare and Subsidiaries at September 30, 2017 and 2016, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

*Ernst + Young LLP*

January 16, 2018

# Northwest Community Healthcare and Subsidiaries

## Consolidated Balance Sheets

	September 30	
	2017	2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 30,872,468	\$ 20,608,344
Patient accounts receivable, less allowances for uncollectible accounts (September 30, 2017 – \$11,857,000; September 30, 2016 – \$9,442,000)	78,956,735	64,115,769
Other receivables	13,082,337	25,352,569
Prepaid expenses and other	15,259,715	12,796,591
Total current assets	138,171,255	122,873,273
Assets limited as to use, at fair value:		
Investments restricted under bond financings	12,643,063	12,696,321
Internally designated for operations and liquidity	–	42,935,463
Internally designated for capital replacement	414,933,564	350,960,755
Internally designated for insurance	26,509,978	30,053,670
Internally designated for deferred compensation	4,995,701	4,376,350
Internally designated for endowment	1,200,000	1,828,174
Externally designated for endowment and other	2,013,503	1,676,412
	462,295,809	444,527,145
Property and equipment, at cost:		
Land and land improvements	23,111,095	22,938,255
Buildings	359,186,859	358,165,003
Fixed equipment and leasehold improvements	235,772,502	230,286,968
Major movable equipment	207,901,114	208,266,338
Construction-in-progress	5,818,749	7,210,738
	831,790,319	826,867,302
Less accumulated depreciation	(413,854,558)	(389,985,773)
	417,935,761	436,881,529
Reinsurance receivable	10,063,686	15,451,053
Other long-term assets	11,986,504	8,169,399
Pension obligation asset	–	2,806,899
Total assets	\$ 1,040,453,015	\$ 1,030,709,298

# Northwest Community Healthcare and Subsidiaries

## Consolidated Balance Sheets (continued)

	September 30	
	2017	2016
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 21,854,024	\$ 18,344,401
Accrued expenses and other	46,255,456	48,461,471
Current maturities of long-term debt obligations	7,315,000	7,010,000
Due to third-party payors	51,231,663	40,810,583
Total current liabilities	126,656,143	114,626,455
Long-term debt obligations, less current maturities:		
Series 2008A bonds	—	2,075,000
Series 2008B bonds	28,510,000	30,180,000
Series 2008C bonds	28,510,000	30,180,000
Series 2011 bonds	41,500,000	43,400,000
Series 2016 bonds	136,690,000	136,690,000
Series 2016 bonds premium	19,473,155	20,411,620
Bond issuance costs	(2,507,318)	(2,651,215)
	252,175,837	260,285,405
Asset retirement obligation	823,833	809,743
Other long-term liabilities	1,642,470	3,425,494
Reserve for self-insurance	48,212,056	52,572,344
Pension obligation liability	1,291,023	—
Total noncurrent liabilities	304,145,219	317,092,986
Total liabilities	430,801,362	431,719,441
Net assets:		
Unrestricted	604,691,582	590,406,064
Temporarily restricted	3,513,527	7,613,357
Permanently restricted	1,446,544	970,436
Total net assets	609,651,653	598,989,857
Total liabilities and net assets	<u>\$ 1,040,453,015</u>	<u>\$ 1,030,709,298</u>

See accompanying notes.

# Northwest Community Healthcare and Subsidiaries

## Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2017	2016
<b>Revenue</b>		
Net patient service revenue (net of contractual allowances)	\$ 547,092,483	\$ 538,660,141
Provision for uncollectible accounts	(19,814,503)	(12,128,710)
Net patient service revenue after provision for uncollectible accounts	527,277,980	526,531,431
Other operating revenue	38,752,455	34,660,526
Total revenue	566,030,435	561,191,957
<b>Expenses</b>		
Salaries and employee benefits	310,249,679	290,046,582
Supplies and other	116,095,310	112,311,707
Professional fees and purchased services	99,052,512	90,374,420
Depreciation and amortization	38,958,606	40,850,586
Illinois hospital assessment	19,714,947	16,407,485
Interest	7,422,887	8,757,157
Total expenses	591,493,941	558,747,937
Operating (loss) income	(25,463,506)	2,444,020
<b>Nonoperating revenue (expenses)</b>		
Net investment income	43,563,363	22,991,796
Loss on early extinguishment of debt	—	(3,809,642)
Change in value of interest rate swap	—	(991,610)
Other	(816,691)	(842,367)
Net nonoperating revenue	42,746,672	17,348,177
Excess of revenue over expenses	\$ 17,283,166	\$ 19,792,197

See accompanying notes.



# Northwest Community Healthcare and Subsidiaries

## Consolidated Statements of Operations and Changes in Net Assets (continued)

	Year Ended September 30	
	2017	2016
<b>Unrestricted net assets</b>		
Excess of revenue over expenses	\$ 17,283,166	\$ 19,792,197
Pension-related changes other than net periodic pension cost	(6,831,319)	9,729,554
Net assets released from restrictions used for purchase of property and equipment	493,135	881,562
Additional capital contributions by noncontrolling interests	3,340,536	—
Increase in unrestricted net assets	14,285,518	30,403,313
<b>Temporarily restricted net assets</b>		
Contributions	1,772,046	3,675,630
Investment income (loss)	211,700	(221,362)
Net assets released from restrictions used for:		
Purchase of property and equipment	(493,135)	(881,562)
Operations	(5,119,333)	(1,149,346)
Other	(471,108)	—
(Decrease) increase in temporarily restricted net assets	(4,099,830)	1,423,360
<b>Permanently restricted net assets</b>		
Contributions	5,000	28,429
Other	471,108	(106,993)
Increase (decrease) in permanently restricted net assets	476,108	(78,564)
Increase in net assets	10,661,796	31,748,109
Net assets at beginning of year	598,989,857	567,241,748
Net assets at end of year	\$ 609,651,653	\$ 598,989,857

See accompanying notes.

# Northwest Community Healthcare and Subsidiaries

## Consolidated Statements of Cash Flows

	Year Ended September 30	
	2017	2016
<b>Operating activities</b>		
Change in net assets	\$ 10,661,796	\$ 31,748,109
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Pension-related changes other than net periodic pension cost	6,831,319	(9,729,554)
Restricted contributions	(1,777,046)	(3,704,059)
Depreciation and amortization	38,958,606	40,850,586
Provision for uncollectible accounts	19,814,503	12,128,710
(Gain) loss on disposal of fixed assets	(196,948)	93,107
Unrealized gain on investments	(26,446,923)	(577,582)
Change in value of interest rate swap	—	991,610
Changes in other assets and liabilities:		
Accounts receivable, other receivables, due to third-party payors and due to affiliates	(11,964,157)	(12,966,184)
Accounts payable and accrued expenses	1,303,608	(23,351,366)
Investments	8,678,259	(16,984,603)
Other assets and liabilities	(9,611,584)	(8,038,816)
Net cash provided by operating activities	36,251,433	10,459,958
<b>Investing activities</b>		
Property and equipment additions, net	(19,815,890)	(18,264,117)
Net cash used in investing activities	(19,815,890)	(18,264,117)
<b>Financing activities</b>		
Issuance of long-term obligations	—	157,101,620
Payments on long-term obligations	(7,010,000)	(146,490,000)
Amortization of bonds premium	(938,465)	—
Restricted contributions	1,777,046	3,704,059
Net cash (used in) provided by financing activities	(6,171,419)	14,315,679
Net increase in cash and cash equivalents	10,264,124	6,511,520
Cash and cash equivalents at beginning of year	20,608,344	14,096,824
Cash and cash equivalents at end of year	\$ 30,872,468	\$ 20,608,344
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	\$ 8,364,825	\$ 8,456,820

See accompanying notes.

# Northwest Community Healthcare and Subsidiaries

## Notes to Consolidated Financial Statements

September 30, 2017

### 1. Organization and Nature of Operations

Northwest Community Healthcare and Subsidiaries (Healthcare), a not-for-profit entity, was established to own, operate, control, and otherwise coordinate the delivery of healthcare within the service area of Northwest Community Hospital (the Hospital), and coordinate the activities of the various corporations affiliated with Healthcare. Subsidiaries of Healthcare include the Hospital, Northwest Community Hospital Foundation (the Foundation), Central Insurance Company, Ltd. (CICL), and Northwest Community Healthcare PHO, LLC (PHO). The Hospital, Foundation, and PHO are tax-exempt organizations under Section 501c(3) of the Internal Revenue Code (the Code). Healthcare's other subsidiaries include Northwest Community Health Services, Inc. (Health Services), NPC-CyberKnife, LLC (CyberKnife), Northwest Community Day Surgery Center II, LLC (DSC-II), Northwest Endo Center LLC, and Northwest Community Foot and Ankle Center, LLC, which are taxable entities.

The Hospital, located in Arlington Heights, Illinois, is a 496-bed acute care facility providing inpatient, outpatient, and emergency care services primarily to residents of Arlington Heights and the surrounding communities. Northwest Community Physicians Association, LLC (NCPA) is an inactive, not-for-profit subsidiary of the Hospital.

CICL is a captive insurance company established January 1, 2013, to provide general and professional liability coverage and workers' compensation coverage for the risks of Healthcare. CICL is a foreign corporation organized in the Cayman Islands, that does not tax its activities.

Health Services owns and operates physician practices within the Hospital's geographic area. The NCH Medical Group (NCHMG) multi-specialty physician practice (that was established in 2010) has offices in Arlington Heights, Buffalo Grove, Mt. Prospect, Lake Zurich, Palatine, and Schaumburg, Illinois.

CyberKnife was formed in June 2006 for the purpose of purchasing and owning a stereotactic radiosurgery system and leasing it to the Hospital. CyberKnife is a limited liability corporation that is owned by Healthcare (74% at September 30, 2017 and 2016) and physician investors (26% at September 30, 2017 and 2016). Healthcare consolidates CyberKnife, as Healthcare owns a majority of the units outstanding.

DSC-II was formed in 2014 for the purpose of owning and operating an ambulatory surgery center. DSC-II is a limited liability company that is owned by Healthcare (53.5% and 56% at September 30, 2017 and 2016, respectively) and physician investors (46.5% and 44% at September 30, 2017 and 2016, respectively). Healthcare consolidates DSC-II, as Healthcare owns a majority of the units outstanding.

**Northwest Community Healthcare and Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**1. Organization and Nature of Operations (continued)**

Northwest Endo Center LLC (Endo) was established as of December 2015 and began operations in March 2017. Endo is a limited liability company that is owned by Health Services and physician investors of 51% and 49%, respectively, as of September 30, 2017. Health Services consolidates Endo as it owns a majority of the units outstanding.

Northwest Community Foot and Ankle Center LLC (Foot) was established and began operations in July 2017. Foot is a limited liability company that is owned by Health Services and physician investors of 51% and 49%, respectively, as of September 30, 2017. Health Services consolidates Foot as it owns a majority of the units outstanding.

**2. Summary of Significant Accounting Policies**

**Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of Healthcare, the Hospital, the Foundation, Health Services, CyberKnife, DSC-II, and CICL. Endo and Foot are consolidated in Health Services operations. NCPA had no financial transactions during 2017 and 2016, and did not hold any assets or liabilities as of September 30, 2017 and 2016. Significant intercompany transactions have been eliminated in consolidation.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the amounts disclosed in the notes to the consolidated financial statements at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Although estimates are considered by management to be fairly stated at the time the estimates are made, actual results could differ.

**Cash and Cash Equivalents**

Cash and cash equivalents include highly liquid short-term investments with original maturities of three months or less from date of purchase.

Northwest Community Healthcare and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Patient Accounts Receivable**

Healthcare evaluates the collectability of its accounts receivable based on the length of time the receivable is outstanding, payor class, and the anticipated future collectible amounts based on historical experience. Accounts receivable are charged to the allowance for uncollectible accounts when they are deemed uncollectible.

**Inventories**

Inventories are priced at the lower of cost, determined by the first-in, first-out method, or market.

**Investments**

Healthcare has designated all of its investments as trading. Investments in equity and debt securities, and mutual funds with readily determinable fair values are reported at fair value based on quoted market prices. Alternative investments, primarily limited partnerships that invest in hedge funds, are reported using the equity method of accounting based on information provided by the partnership. Income earned, realized gains (losses), and changes in unrealized gains (losses) on funds internally designated for operations and liquidity are reported as other operating revenue. All other investment income (loss), realized gains (losses), and changes in unrealized gains (losses) are reported as nonoperating revenue (expense).

**Derivative Instruments**

Derivative instruments, specifically interest rate swaps, are recorded on the consolidated balance sheets at their respective fair values. The Hospital had entered into an interest rate-related derivative investment (Swap) in 2013 to minimize its exposure to its variable rate debt. The derivative instruments do not qualify for hedge accounting; therefore, the change in the fair value of those derivative instruments is reflected in nonoperating revenue (expense). The changes in cash flows are reflected in interest expense. In July 2016, the repurchase of the outstanding Swap was completed, resulting in a loss of \$547,000 which was included in nonoperating income for the fiscal year ended September 30, 2016. Healthcare held no derivative instruments as of September 30, 2017.

The net amount paid by Healthcare as interest expense under the Swap agreement totaled approximately \$348,000 for the year ended September 30, 2016. The change in the fair value of the Swap agreement of \$992,000 was recorded as a nonoperating loss in 2016.

**Northwest Community Healthcare and Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**2. Summary of Significant Accounting Policies (continued)**

**Property and Equipment**

Property and equipment acquisitions are recorded at cost. Healthcare uses the straight-line method of computing depreciation for property and equipment. In the year ended September 30, 2017, the Hospital re-lived its Epic software system reducing 2017 depreciation expense by approximately \$1,580,000. Depreciation expense was \$38,808,000 and \$40,586,000 for the years ended September 30, 2017 and 2016, respectively.

**Deferred Financing and Other Costs**

Underwriting fees and other costs related to the issuance of the Series 2016, Series 2011, and Series 2008 bonds, which are included in long-term debt, are deferred and amortized on a straight-line basis over the life of the related debt using methods that approximate the effective interest method. Bond issuance amortization expense was approximately \$151,000 and \$265,000 for the years ended September 30, 2017 and 2016, respectively. In addition, in the year ended September 30, 2016 Healthcare had deferred bond issuance costs of \$1,838,000 and recorded a \$3,810,000 nonoperating loss to write off the remaining unamortized 2008A bond issuance costs.

**General and Professional Liability Insurance**

The provision for general and professional liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported, which are included in long-term liabilities.

**Reinsurance Receivable**

Reinsurance receivable is recognized in a manner consistent with the liabilities relating to the underlying reinsured contracts.

**Goodwill and Intangible Assets**

Goodwill has been recorded at the excess of the purchase price over the fair market value of the assets purchased primarily in physician practice acquisitions. Healthcare has goodwill of \$8,991,000 and \$5,417,000 as of September 30, 2017 and 2016, respectively. The majority of the increase in fiscal 2017 was from the formation of the Endo joint venture. Healthcare performed a qualitative assessment of goodwill for the organization as a whole and determined that no impairment existed as of September 30, 2017 and 2016.

Northwest Community Healthcare and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Asset Retirement Obligation**

Healthcare records the fair value of legal obligations associated with long-lived asset retirements in accordance with ASC 410-20, *Asset Retirement and Environmental Obligations – Asset Retirement Obligations*. The asset retirement obligation (ARO) is primarily for future asbestos remediation, but also includes certain types of environmental issues that are legally required to be remediated upon an asset's retirement, as well as contractually required asset obligations. The asset retirement obligation is accreted to the present value of the liability each year. Accretion expense of \$14,000 was recorded for the year ended September 30, 2017 and is included in operating (interest) expense. The ARO liability was \$824,000 and \$810,000 as of September 30, 2017 and 2016, respectively.

**Asset Impairment**

Healthcare considers whether indicators of impairment are present, and performs the necessary test to determine if the carrying value of an asset is appropriate. Impairment write-downs are recognized in operating income at the time the impairment is identified. There was no impairment of assets in 2017 and 2016.

**Contributions and Restricted Net Assets**

Unconditional promises to give cash and other assets to Healthcare are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the conditions have been met.

Donor-restricted contributions are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets to a specific time period or purpose. Permanently restricted net assets are those that the donor stipulates must be maintained by Healthcare in perpetuity. Permanently restricted net assets increase when Healthcare receives contributions for which donor-imposed restrictions limiting the organization's use of an asset or its economic benefits neither expire with the passage of time nor can be removed by the organization meeting certain requirements.

Substantially all restricted contributions benefiting Healthcare are initially received by the Foundation. When a donor restriction is met, the Foundation transfers the temporarily restricted gift to the donor-designated entity, at which time the related net assets are released from restriction in the consolidated financial statements.

Northwest Community Healthcare and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Patient Service Revenue**

Healthcare has agreements with third-party payors that provide for payments to Healthcare at amounts different from its established rates. Payment arrangements include prospectively determined rates, discounted charges, and per diem payments. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated adjustments under reimbursement agreements with third-party payors, certain of which are subject to audit by administering agencies. These adjustments are accrued on an estimated basis, and are adjusted in future periods.

**Other Operating Revenue and Other Nonoperating Income**

Other operating revenue is derived primarily from non-direct patient care sources such as wellness center fees, rental and management fees, PHO premium revenue, and cafeteria sales.

Other nonoperating income is primarily gain (loss) on disposal of fixed assets and the minority share of net income.

**Charity Care and Community Benefit**

The policy of Healthcare is to treat patients in immediate need of medical services without regard to their ability to pay for such services. Healthcare maintains records to identify and monitor the level of charity care provided. These records include the amount of estimated costs for services rendered and supplies furnished under its charity care policy. The estimated difference between the cost of services provided to Medicare and Medicaid patients and the reimbursement from these governmental programs is also monitored. Healthcare operates or funds two primary care clinics, a mobile dental clinic, and a community center serving low-income families in its service area. In addition, Healthcare provides community benefits in the form of health and wellness education, translation services, maternal/child classes, paramedic training, health screenings, support groups, physician referral, and other social services.

Healthcare policies have been established that define charity care and provide guidelines for assessing a patient's ability to pay. Evaluation procedures for charity care qualification have been established for those situations when previously unknown financial circumstances are revealed, or when incurred charges are significant when compared to the individual patient's income/or net



Northwest Community Healthcare and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

assets. In addition to providing traditional charity care services, Healthcare's financial assistance policy offers discounted services to uninsured patients who do not otherwise qualify for charity. The payments expected from patients are based on rates negotiated with managed care plans, with discounts determined on a sliding scale tied to the federal poverty level.

The cost to provide charity care using Healthcare's cost-to-charge ratio was \$9,939,000 and \$8,755,000 for 2017 and 2016, respectively. The ratio of costs to charges is calculated based on the Hospital's most recently filed Medicare cost report at the time the financial statements are issued.

Healthcare is compliant with provisions of the Patient Protection and Affordable Care Act that require, among other things, that hospital organizations establish a financial assistance policy and a policy relating to emergency medical care. In addition, recent policy guidelines issued by the Internal Revenue Service (IRS) under Section 501(c) have been implemented by Healthcare relating to financing assistance and patient billing requirements.

**Excess of Revenue Over Expenses**

The consolidated statements of operations and changes in net assets include excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, include net assets released from restrictions used for the purchase of property and equipment, noncontrolling investments changes, and pension-related charges other than net periodic pension cost.

**Income Taxes**

Healthcare, the Hospital, and the Foundation have been determined to qualify as exempt from federal income tax on related income under Section 501(a) as organizations described in Section 501(c)(3) of the Code. Most of the income received by these organizations is exempt from taxation as income related to the mission of the organizations. Accordingly, there is no material provision for income tax for these entities.

PHO and NCPA (inactive) are single-member limited liability companies and are classified as disregarded entities under the Code.

CyberKnife, DSC-II, Endo, and Foot are limited liability companies with multiple members and are treated as partnerships under the Code. As such, income taxes are paid directly by the members.

Northwest Community Healthcare and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

Health Services is taxed as a corporation. The deferred tax benefit for net operating loss carryforwards of \$41,335,000 at September 30, 2017 is fully reserved. There is no current provision for income taxes.

CICL is incorporated under the laws of the Cayman Islands. Presently, there is no taxation imposed by the government of the Cayman Islands. If any form of taxation were to be enacted, CICL has been granted an exemption from incorporation to April 30, 2033, by the government of the Cayman Islands. Additionally, CICL is not engaged in the trade or business in any country other than the Cayman Islands. Therefore, CICL's operations do not make it liable for taxation in any other country. Accordingly, no income tax provision has been recorded related to CICL and its operations.

**Reclassifications**

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation. Those reclassifications had no impact on net assets or excess of revenue over expenses as previously reported.

**New Accounting Pronouncements**

In February 2015, the FASB issued ASU No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*. The guidance in this update modifies the analysis that companies must perform to determine whether certain legal entities should be consolidated, including limited partnerships and similar legal entities that would be considered variable interest entities and investments in certain investment funds. This new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. Healthcare was required to adopt the new guidance on October 1, 2016, and determined there was no change required in reporting of consolidating entities.

In April 2015, the FASB issued ASU No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The amendments in this update require that the carrying amount of the debt liability be presented net of debt issuance costs, consistent with the presentation of debt discounts. The recognition and measurement guidance for debt issuance costs is not affected by the amendments in this update. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2015. Healthcare was required to adopt the new guidance on October 1, 2016 and reclassified the presentation of debt issuance costs from other assets to long-term debt as of September 30, 2016.

## Northwest Community Healthcare and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

In April 2015, the FASB also issued ASU No. 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. ASU No. 2015-05 provides explicit guidance on how to account for fees paid in cloud computing arrangements to remove the diversity in practice for accounting for such arrangements. These arrangements can include software as a service, platform as a service, infrastructure as a service, and other similar housing arrangements. This ASU provides guidance on inclusion of software licenses in such arrangements which the customer should account for consistent with acquisition of other software licenses. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2015, with early adoption permitted. Healthcare was required to adopt the new guidance on October 1, 2016 with no impact on its financial statements.

In May 2015, the FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share (or Its Equivalent)*. Under the new guidance, investments measured at net asset value per share, which have unobservable inputs, will be excluded from the fair value hierarchy table. Other disclosure requirements for these investments are unchanged and will continue to be included in the investment disclosures. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2015. Healthcare was required to adopt the new guidance on October 1, 2016.

In September 2015, the FASB issued ASU No. 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*. The standard requires that adjustments made to provisional amounts recognized in a business combination be recorded in the period such adjustments are determined rather than retrospectively adjusting previously reported amounts. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Healthcare was required to adopt this guidance on October 1, 2016 and there was no impact on the financial reporting for the year ended September 30, 2017.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this update require not-for-profit entities that are conduit bond obligors to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This will result in Healthcare making additional judgments, such as estimates of the collectability of revenue. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017, with early adoption not permitted. Healthcare is required to adopt the new guidance for the fiscal year beginning on October 1, 2018, and is currently evaluating the impact this guidance will have on its consolidated financial statements.

Northwest Community Healthcare and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which will require lessees to put most leases on their balance sheets but recognize expenses on their income statements in a manner similar to existing accounting standards. The guidance eliminates current real estate-specific provisions for all entities. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2018, with early adoption permitted. This would be October 1, 2019, for Healthcare. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. Full retrospective application is prohibited. Healthcare is currently evaluating the effect this ASU will have on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 changes certain financial statement requirements for not-for-profit (NFP) entities in the scope of ASC 958 in an effort to make the information more meaningful to users and make reporting less complex. NFP entities will no longer be required to distinguish between resources with temporary and permanent restrictions on the face of the financial statements. Additionally, NFP entities will be required to present expenses by their natural and functional classifications and present investment returns net of external and direct internal investment expenses. This new guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. The guidance is to be applied retrospectively and early adoption is permitted. Healthcare is currently evaluating the effect this ASU will have on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which changes the presentation of periodic benefit cost components. Under this ASU, present service costs will continue to be presented within operating expenses but present amortization of prior service credits and other components of net periodic benefit cost in nonoperating gains (losses) in the consolidated statements of operations and changes in net assets. This ASU is effective for annual reporting periods beginning after December 15, 2017. Healthcare is currently evaluating the impact of this guidance on its consolidated financial statements.

**3. Net Patient Service Revenue**

The Hospital's net patient service revenue accounted for approximately 84% and 85% of Healthcare's consolidated net patient service revenue in 2017 and 2016, respectively. In 2017, approximately 39% of the Hospital's net patient service revenue was derived from Medicare, and

# Northwest Community Healthcare and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 3. Net Patient Service Revenue (continued)

approximately 60% of the Hospital's net patient service revenue was derived from Medicaid, Blue Cross, and commercial managed care programs, which provide for payments to the Hospital at amounts different from its established rates. In 2016, approximately 37% of the Hospital's net patient service revenue was derived from Medicare, and approximately 61% of the Hospital's net patient service revenue was derived from Medicaid, Blue Cross, and commercial managed care programs, which provide for payments to the Hospital at amounts different from its established rates. Reimbursement under these programs is based on a specific amount per case, or a contracted price, as defined, for rendering services to program beneficiaries.

Healthcare net patient service revenue consisted of the following at September 30 (in thousands):

	2017	2016
Medicare	\$ 214,979	\$ 189,550
Medicaid	53,695	46,008
Managed care	266,640	286,847
Self-pay	5,527	9,618
Commercial	6,252	6,637
Net patient service revenue (net of contractual)	547,093	538,660
Provision for uncollectible accounts	19,815	12,129
Net patient service revenue after provision for uncollectible accounts	<u>\$ 527,278</u>	<u>\$ 526,531</u>

Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements. The Hospital recorded contractual allowances in the current period representing the difference between charges for services rendered and the expected payments under these programs, and adjusts them in future periods as final settlements through cost reports or other means are determined.

Adjustments arising from reimbursement arrangements with third-party payors are accrued for on an estimated basis in the period in which the services are rendered. Estimates for cost report settlements and contractual allowances can differ from actual reimbursement based on the results of subsequent reviews and cost report audits. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2014. During the year ended September 30, 2017, no material changes in estimates related to the settlement of cost reports were

Northwest Community Healthcare and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**3. Net Patient Service Revenue (continued)**

recognized in net patient service revenue for the Hospital. During the year ended September 30, 2016, an increase in net patient revenue of approximately \$3,100,000 was recognized related to changes in estimates.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change. Governmental agencies routinely conduct random regulatory investigations and compliance audits of healthcare organizations. During the last few years, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. The Hospital is currently undergoing a Medicaid compliance audit, and as a result, recorded amounts may change in the near term. The ultimate resolution of this matter cannot be readily determined at this time; however, management is of the opinion that any changes in recorded amounts will not have a material effect on Healthcare's consolidated financial condition. Healthcare believes that it is in compliance with applicable laws and regulations, and is not aware of any other pending or threatened investigations involving allegations of potential wrongdoing.

**4. Uncollectible Accounts**

Healthcare analyzes the allowance for uncollectible accounts monthly using a hindsight calculation that utilizes write-off data for all payor classes during the latest 18-month period, with write-off activity to estimate the allowance for uncollectible accounts at a point in time. The rates used in the computation of the allowance for uncollectible accounts change each month given changes in trends from these analyses or policy changes. Significant changes in payor mix, business office operations, general economic conditions, and healthcare coverage provided by federal or state governments or private insurers may have a significant impact on Healthcare's estimates, and significantly affect its liquidity, results of operations, and cash flows.

Healthcare's estimate of the allowance for uncollectible accounts and recoveries of accounts previously written off determines its provision for uncollectible accounts recorded during the period. Healthcare records the provision for uncollectible accounts at the time the services are provided for uninsured patients, since historical experience shows that the significant majority of uninsured balances will not be collected. Healthcare also supplements its analysis by monitoring self-pay utilization. Healthcare records the provision for uncollectible accounts related to self-pay after insurance accounts at the time the insurance payment has been received. Healthcare also records a provision for uncollectible accounts related to uninsured accounts to record the net self-pay accounts receivable at the estimated amounts expected to be collected.

## Northwest Community Healthcare and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 4. Uncollectible Accounts (continued)

Healthcare manages the receivables by regularly reviewing its accounts and contracts, and by providing appropriate allowances for contractual discounts and uncollectible amounts. Healthcare typically writes off uncollected accounts receivable 120 days subsequent to the account becoming full patient responsibility. Healthcare uses sophisticated software to estimate reserve percentages, including those percentages applied to uninsured accounts and self-pay after insurance/Medicare accounts, and to account for pricing changes and for the impact of its uninsured discount policy.

Healthcare classifies accounts pending Medicaid approval as Medicaid in its accounts receivable analysis. Reserves for Medicaid receivables are based on hindsight analysis, which takes into account the approval percentage for Medicaid pending accounts when establishing reserves for Medicaid receivable balances. Supplemental calculations are also performed on current Medicaid receivables to establish reserves considered to be appropriate.

Healthcare serves certain patients whose medical care costs are not paid at established rates. These patients include those sponsored under government programs such as Medicare and Medicaid, those sponsored under private contractual agreements, charity patients, and other uninsured patients who have limited ability to pay.

Patient service revenue is reported at estimated net realizable amounts for services rendered. Healthcare recognizes patient service revenue associated with patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, revenue is recognized on the basis of discounted rates in accordance with Healthcare's policy. Estimates of contractual allowances under managed care health plans are based upon the payment terms specified in the related contractual agreements.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the period from these major payor sources for the years ended September 30, was as follows (in thousands):

	Third-Party Payors	Self-Pay	Total All Payors
Fiscal year ended:			
2017	\$ 541,566	\$ 5,527	\$ 547,093
2016	529,042	9,618	538,660

# Northwest Community Healthcare and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 4. Uncollectible Accounts (continued)

The allowance for uncollectible accounts was \$11.9 million and \$9.4 million as of September 30, 2017 and 2016, respectively. These balances as a percent of accounts receivable, net of contractual adjustments, were 11.2% and 10.5% at September 30, 2017 and 2016, respectively. Healthcare's combined allowance for uncollectible accounts, uninsured discounts, and charity care covered approximately 86% and 61% of combined uninsured and self-pays after insurance accounts receivable at September 30, 2017 and 2016, respectively.

The increase in the allowance for uncollectible accounts during the year ended September 30, 2017, was primarily due to a change in the composition of the related accounts receivable and fully reserving all balances in the legacy accounts receivable system.

A summary of Healthcare's allowance for uncollectible accounts activity during the fiscal years ended September 30 is as follows (in thousands):

	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Accounts Written Off, Net of Recoveries and Other	Balance at End of Year
Allowance for doubtful accounts:				
2017	\$ 9,442	\$ 19,815	\$ (17,400)	\$ 11,857
2016	\$ 11,353	\$ 12,129	\$ (14,040)	\$ 9,442

### 5. Concentrations of Credit Risk

Healthcare grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables, net of reserves for contractual allowances, charity care, and uncollectible accounts, at September 30, was as follows:

	2017	2016
Medicare	30%	34%
Medicaid	15	5
Managed care	42	44
Other third-party payors	6	11
Self-pay patients	7	6
	100%	100%



Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**6. Investments**

The composition of investments restricted under bond financings and assets limited as to use at September 30 was as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Assets limited as to use:		
Internally designated for operations and liquidity:		
Cash and money market funds	\$ —	\$ 409
U.S. government and agency obligations	—	11,863
Corporate bonds	—	26,840
Municipal bonds	—	3,823
Investments restricted under bond financings:		
Cash and cash equivalents	<u>12,643</u>	<u>12,696</u>
	<u>12,643</u>	55,631
Internally designated for capital replacement:		
Cash and cash equivalents	837	2,663
Alternative investments	—	28,731
Fund of funds	78,468	44,070
Mutual funds	<u>335,629</u>	<u>275,497</u>
	<u>414,934</u>	350,961
Internally designated for insurance:		
Mutual funds	26,510	30,054
Internally designated for deferred compensation:		
Mutual funds	4,996	4,376
Internally and externally designated for endowment:		
Mutual funds	<u>3,213</u>	<u>3,505</u>
Total assets limited as to use	<u>\$ 462,296</u>	<u>\$ 444,527</u>

Northwest Community Healthcare and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**6. Investments (continued)**

The composition and presentation of investment income are as follows for the years ended September 30 (in thousands):

	2017	2016
Interest and dividends	\$ 7,523	\$ 7,678
Realized gains on investments	12,235	17,330
Change in net unrealized gains and losses on investments	26,447	578
Investment fees	(766)	(1,571)
	<u>\$ 45,439</u>	<u>\$ 24,015</u>
Reported as:		
Other operating revenue	\$ 1,664	\$ 1,244
Net investment income	43,563	22,992
Temporarily restricted investment income	212	(221)
	<u>\$ 45,439</u>	<u>\$ 24,015</u>

**7. Fair Value Measurements**

All investments in marketable securities are reported at fair value as defined in ASC 820, *Fair Value Measurement*.

ASC 820-10-50-2 establishes a three-level valuation hierarchy. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

# Northwest Community Healthcare and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 7. Fair Value Measurements (continued)

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following table presents the financial instruments carried at fair value, except certain alternative investments (which are reported on the equity method of accounting), as of September 30, 2017, by caption on the consolidated balance sheet by the valuation hierarchy defined above (in thousands):

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 30,872	\$ —	\$ —	\$ 30,872
Investments restricted under bond financings:				
Cash and cash equivalents	12,643	—	—	12,643
Internally designated for capital replacement:				
Cash and cash equivalents	837	—	—	837
Mutual funds:				
U.S. equity	210,744	—	—	210,744
Fixed income	124,885	—	—	124,885
	335,629	—	—	335,629
Internally designated for insurance:				
Mutual funds:				
U.S. equity	5,304	—	—	5,304
International equity	3,181	—	—	3,181
Fixed income	18,025	—	—	18,025
	26,510	—	—	26,510
Internally designated for deferred compensation:				
Mutual funds	4,996	—	—	4,996
Internally and externally designated for endowment:				
Mutual funds:				
U.S. equity	1,410	—	—	1,410
International equity	653	—	—	653
Fixed income	1,150	—	—	1,150
	3,213	—	—	3,213
Assets at fair value	\$ 414,700	\$ —	\$ —	\$ 414,700

# Northwest Community Healthcare and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 7. Fair Value Measurements (continued)

The following table presents the financial instruments carried at fair value, except certain alternative investments (which are reported on the equity method of accounting), as of September 30, 2016, by caption on the consolidated balance sheet by the valuation hierarchy defined above (in thousands):

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 20,608	\$ —	\$ —	\$ 20,608
Investments restricted under bond financings:				
Cash and cash equivalents	12,696	—	—	12,696
Internally designated for operations and liquidity:				
Cash and money market funds	409	—	—	409
U.S. government and agency obligations	—	11,863	—	11,863
Corporate bonds	—	26,840	—	26,840
Municipal bonds	—	3,823	—	3,823
	409	42,526	—	42,935
Internally designated for capital replacement:				
Cash and cash equivalents	2,663	—	—	2,663
Mutual funds:				
U.S. equity	204,862	—	—	204,862
Fixed income	70,514	—	—	70,514
	278,039	—	—	278,039
Internally designated for insurance:				
Mutual funds:				
U.S. equity	5,402	—	—	5,402
International equity	3,180	—	—	3,180
Fixed income	21,472	—	—	21,472
	30,054	—	—	30,054
Internally designated for deferred compensation:				
Mutual funds	4,376	—	—	4,376
Internally and externally designated for endowment:				
Mutual funds:				
U.S. equity	1,473	—	—	1,473
International equity	664	—	—	664
Fixed income	1,368	—	—	1,368
	3,505	—	—	3,505
Assets at fair value	\$ 349,687	\$ 42,526	\$ —	\$ 392,213

Northwest Community Healthcare and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**7. Fair Value Measurements (continued)**

The fair value of Level 1 investments is based on quoted market prices and is valued on a daily basis. Level 2 pricing is based on the custodian's pricing methodologies that are based on institutional bid evaluations. Institutional bid evaluations are estimated prices computed by pricing vendors. These prices are determined using observable inputs for similar securities as of the measurement date. Redemption frequency is monthly. The fair value of the interest rate swap is based on discounted cash flows adjusted for non-performance risk. The adjustment is based on bond pricing for equivalent credit-related entities.

The carrying value of cash and cash equivalents, accounts receivable, and accounts payable approximates fair value because of the short maturity of those assets and liabilities.

The estimated fair value of long-term debt (including current portion), based on quoted market prices for the same or similar issues, was and \$255,886,000 and \$272,471,000 at September 30, 2017 and 2016, respectively. The estimated fair value of long-term debt was provided by a third-party service and was based on pricing of similar debt issues. Based on these inputs, the fair value disclosure is considered a Level 2 fair value measurement.

Healthcare's investments are exposed to various kinds and levels of risk. Equity securities and mutual funds expose Healthcare to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets. Performance risk is the risk associated with a company's operating performance. Fixed income securities and mutual funds expose Healthcare to interest rate risk, credit risk, and liquidity risk. As interest rates change, the values of many fixed income securities are affected, including those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligations. Liquidity risk is affected by the willingness of market participants to buy and sell particular securities, and tends to be higher for equities related to small capitalization companies. Due to the volatility in the capital markets, there is a reasonable possibility of subsequent changes in fair value, resulting in additional gains and losses in the near term.

Northwest Community Healthcare and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**8. Long-Term Obligations**

Healthcare's long-term debt is issued pursuant to an amended and restated master trust indenture dated June 15, 2016. The master trust indenture establishes an "Obligated Group," consisting of the Hospital and Healthcare. All members of the Obligated Group are jointly and severally obligated to pay all debt under the master trust indenture and are required to maintain their status as tax-exempt, not-for-profit health care providers.

All obligations issued under the master trust indenture are secured by a security interest in the receivables of the Obligated Group as defined in the master trust indenture.

Under the terms of the master trust indenture and reimbursement agreements obtained in relation to the Series 2011 debt, the Obligated Group must meet certain financial covenants, including minimum debt service coverage levels. As of September 30, 2017, the Obligated Group was in compliance with these covenants.

Bond interest expense during 2017 and 2016 was \$7,191,000 and \$7,979,000, respectively. Including financing fees, investment fees, and swap settlements, total interest expense was \$7,423,000 and \$8,757,000 for 2017 and 2016, respectively. No interest was capitalized for the years ended September 30, 2017 and 2016.

**Series 2016A Bonds**

In June 2016, the Illinois Finance Authority (IFA) issued \$136,690,000 of fixed interest rate bonds that bear coupon interest at rates ranging from 4.00% to 5.00% annually, which were sold at a premium of \$20,646,000. These bonds were used to refund the majority of the 2008A variable rate demand revenue bonds. The balance remaining as of September 30, 2017, on the 2008A bonds is \$2,075,000. The bonds are payable annually with interest payments twice a year. The bond premium balance was \$19,473,000 and \$20,412,000 at September 30, 2017 and 2016, respectively.

**Series 2011 Bonds**

Pursuant to the Bond Supplemental Master Indenture dated December 1, 2011, the IFA issued \$53,100,000 of variable rate demand revenue bonds (the Series 2011 debt) on behalf of the Hospital. The proceeds were used to currently refund the Series 2002B debt. The bonds were initially purchased by a bank for an initial term of ten years, and bear interest at a variable rate

Northwest Community Healthcare and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**8. Long-Term Obligations (continued)**

based on a percentage of the London Interbank Offered Rate (LIBOR) plus an agreed-upon spread. Effective December 1, 2021, the bonds will be payable on demand. The bonds have a final maturity date of July 1, 2032. The average interest rate during fiscal 2017 and 2016 was 2.06% and 1.67%, respectively.

**Series 2008A Bonds**

In September 2008, the IFA issued \$154,765,000 of revenue bonds (the Series 2008A debt) on behalf of the Hospital to fund certain capital projects. Most of these bonds were refunded by the Series 2016A bonds. The remaining 2008A bonds are payable in varying installments through July 1, 2018, and bear interest at fixed rates ranging from 4.00% to 5.50% annually. Proceeds from the Series 2008A debt were used to reimburse the Hospital for prior capital expenditures and to pay issuance costs of the bonds.

**Series 2008B and Series 2008C Bonds**

In October 2008, the IFA issued \$86,820,000 of variable rate demand revenue bonds (the Series 2008B/C debt) on behalf of the Hospital. The proceeds were used to refinance a taxable bank loan originally obtained to refund the Obligated Group's Series 2002A debt. The bonds are payable in varying installments through July 1, 2032, and bear interest at a variable rate not to exceed 12%. The average interest rate during fiscal 2017 and 2016 was 0.76% and 0.26%, respectively.

The direct pay letter of credit securing the Series 2008 B/C debt was replaced on February 17, 2016, with irrevocable transferable letters of credit that expire on October 5, 2020. The letters of credit provide a commitment to provide funds for the purchase of Series 2008 B/C bonds that may be tendered pursuant to an optional or a mandatory tender and that have not been remarketed. Such advances convert to term loans, with principal payments payable no earlier than a year and a day from the date of the advance.

Unamortized underwriting fees and other costs related to the issuance of debt of \$2,507,000 and \$2,651,000 are included in long-term debt at September 30, 2017 and 2016, respectively.

Northwest Community Healthcare and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**8. Long-Term Obligations (continued)**

The future principal payments on the bonds are as follows (in thousands):

	Series 2008A	Series 2008B/C	Series 2011	Series 2016	Total
Year ending September 30:					
2018	\$ 2,075	\$ 3,340	\$ 1,900	\$ —	\$ 7,315
2019	—	3,450	2,000	2,150	7,600
2020	—	3,460	2,200	2,265	7,925
2021	—	3,580	2,300	2,390	8,270
2022	—	3,700	2,400	2,530	8,630
Thereafter	—	42,830	32,600	127,355	202,785
Total principal payments	<u>\$ 2,075</u>	<u>\$ 60,360</u>	<u>\$ 43,400</u>	<u>\$ 136,690</u>	<u>\$ 242,525</u>

**9. Restricted Net Assets**

Restricted net assets are available for the following purposes at September 30 (in thousands):

	2017	2016
Temporarily restricted:		
Specific hospital programs	\$ 188	\$ 142
Other special uses	122	3,699
Behavioral/Mental Health	29	14
Nursing education	613	526
Women's services	877	1,176
Community services	102	40
Cancer services	1,327	1,355
Pediatrics	42	86
Cardiac services	214	575
	<u>\$ 3,514</u>	<u>\$ 7,613</u>
Permanently restricted:		
Youth treatment center	\$ 347	\$ 307
Nursing education	875	501
Endowment – general	224	162
	<u>\$ 1,446</u>	<u>\$ 970</u>

Healthcare's endowment consists of individual donor-restricted funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the donor-imposed restrictions.



## Northwest Community Healthcare and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 9. Restricted Net Assets (continued)

Healthcare has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), as adopted by the state of Illinois, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, Healthcare classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the directions of the applicable donor gift instrument at the time the accumulation is added to the fund.

Any remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the donor intent or, where silent, standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Healthcare considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The purposes of Healthcare and the endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation of investments

Healthcare has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that must be held in perpetuity. Under the investment policy, endowment assets are invested in a manner that is intended to produce a real return, net of inflation, of at least 5% over the long term. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, Healthcare relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Healthcare targets a diversified asset allocation that places a greater emphasis on equity-based and alternative investments to achieve its long-term objective within prudent risk constraints.

Northwest Community Healthcare and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**9. Restricted Net Assets (continued)**

Healthcare has a policy of appropriating for distribution each year 4% of the average of the most recent 12 quarters' endowment fund balance. In establishing this policy, Healthcare considered the long-term expected return on its endowment. Accordingly, over the long term, Healthcare expects to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

The changes in restricted net assets are summarized below (in thousands):

	Temporarily Restricted	Permanently Restricted	Total
Restricted net assets, September 30, 2015	\$ 6,190	\$ 1,049	\$ 7,239
Contributions	3,675	28	3,703
Investment loss	(221)	—	(221)
Appropriation for expenditure	(2,031)	—	(2,031)
Other	—	(107)	(107)
Restricted net assets, September 30, 2016	7,613	970	8,583
Contributions	1,772	5	1,777
Investment gain	212	—	212
Appropriation for expenditure	(5,612)	—	(5,612)
Other	(471)	471	—
Restricted net assets, September 30, 2017	<u>\$ 3,514</u>	<u>\$ 1,446</u>	<u>\$ 4,960</u>

**10. Insurance Programs**

Healthcare is a defendant in certain lawsuits, and may be subject to additional claims alleging professional liability. Effective November 1, 1978, Healthcare began insuring basic professional and general liability coverage, subject to a nominal deductible, through the Chicago Hospital Risk Pooling Program (CHRPP). CHRPP was a self-insured trust established under the Illinois Religious and Charitable Risk Pooling Trust Act of 1977.

As of December 31, 2010, CHRPP discontinued the issuance of professional and general liability coverage and commenced a voluntary runoff of its claim portfolio effective January 1, 2011. As of that date, Healthcare established a self-insured retention program in which it retained the risk for all claims with individual values under \$4,000,000. An additional "buffer" self-insured retention

## Northwest Community Healthcare and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 10. Insurance Programs (continued)

existed for the first claim that exceeds \$4,000,000. As of January 1, 2013, this was revised and Healthcare retains \$1,000,000 for each claim with an aggregate of \$3,000,000 for all claims. Healthcare obtains commercial insurance on a claims-made basis for claims exceeding the self-insured retention.

On January 1, 2013, Healthcare incorporated a related captive insurance company in the Cayman Islands. The newly formed company provides medical professional and general liability coverage for the risks of Healthcare, which was previously self-insured. In addition, the new company is providing prospective coverage for the employed physicians who were previously covered by NCHCI.

Healthcare's self-insurance and tail liabilities as of September 30, 2017 and 2016, of \$46,184,000 and \$50,913,000, respectively, are reported on the accompanying consolidated balance sheets on an undiscounted basis for the captive organization and discounted basis for the Hospital. The undiscounted gross self-insurance and tail liabilities were \$47,668,000 and \$52,441,000 at September 30, 2017 and 2016, respectively. Provisions for professional and general liability risks are based on an actuarial estimate of losses using actual loss data adjusted for industry trends and current conditions. The provision for estimated self-insured claims includes estimates of ultimate costs for both reported claims and claims incurred but not reported. A reinsurance receivable of \$10,064,000 and \$15,451,000 was recorded at September 30, 2017 and 2016, respectively.

As of April 1, 2015, Healthcare also established a self-insured retention program through the related captive insurance company for its workers' compensation risks. This had also previously been with CHRPP. Healthcare retains risk for the first \$450,000 of each claim. Healthcare also retains risk of \$100,000 for the first claim that exceeds the \$450,000 limit. Commercial insurance has been obtained on a claims-made basis for claims exceeding the self-insured retention. Healthcare's workers' compensation liabilities as of September 30, 2017 and 2016, of \$2,226,000 and \$2,492,000, respectively, are reported on the accompanying consolidated balance sheets on an undiscounted basis. Of this amount, as of September 30, 2017 and 2016, \$198,000 and \$833,000, respectively, was recorded in current liabilities.

Actuarial estimates are subject to uncertainty from various sources, including changes in claim reporting patterns, claim settlement patterns, judicial decisions, legislation, and economic conditions. The actual claim payments could be materially different from the estimate. In the opinion of management, although certain of these claims could potentially exceed Healthcare's coverage, the final premiums and costs, and the ultimate disposition of claims covered under the self-insured program, will not have a material adverse effect on the consolidated financial position of Healthcare.

## Northwest Community Healthcare and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 11. Commitments

Healthcare leases space under operating lease agreements. There are no long-term equipment leases. Total expense recognized for operating lease agreements during fiscal 2017 and 2016 was approximately \$5,219,000 and \$5,168,000, respectively. Healthcare has no capitalized lease obligations.

As of September 30, 2017, Healthcare is required to make the following future minimum payments under the non-cancelable lease agreements (in thousands):

2018	\$	3,904
2019		3,560
2020		2,088
2021		1,953
2022		1,543
Thereafter		2,163
	\$	<u>15,211</u>

#### 12. Employee Retirement Plans

Substantially all employees of Healthcare participate in one of two retirement plans. The Northwest Community Hospital Employees' Retirement Plan (the Plan) is a trustee, non-contributory, defined benefit plan. The Northwest Community Healthcare Employees' Retirement Plan (the DC Plan) is a defined contribution 401K plan.

##### Defined Benefit Plan

During fiscal 2010, the Hospital elected to freeze benefit accruals for all participants in the Plan. An amendment to the Plan eliminated all future benefit accruals, including participants' credited service, final average earnings, and final average compensation amounts used to calculate Plan benefits. A September 30 measurement date was utilized for 2017 and 2016.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**12. Employee Retirement Plans (continued)**

The Plan's actuarial losses (gains) included in unrestricted net assets during 2017 and 2016 were \$6,831,000 and \$(9,730,000), respectively.

The status of the Plan at September 30, and for the years then ended, is as follows (in thousands):

	2017	2016
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 168,637	\$ 171,668
Interest cost	5,069	5,678
Actuarial loss	5,420	4,446
Settlements	(13,091)	(11,166)
Benefits paid	(2,134)	(1,989)
Projected benefit obligation at end of year	163,901	168,637
Change in plan assets:		
Fair value of plan assets at beginning of year	171,444	154,709
Actual gain on plan assets	5,592	21,730
Employer contributions	800	8,160
Settlements	(13,091)	(11,166)
Benefits paid	(2,134)	(1,989)
Fair value of plan assets at end of year	162,610	171,444
Funded status as of measurement date	(1,291)	2,807
Unrestricted net assets:		
Adjustment to unrestricted net assets	(61,092)	(54,260)
Components of unrestricted net assets:		
Unrecognized net actuarial loss	61,092	54,260
Net amount recognized at end of year	\$ (1,291)	\$ 2,807

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**12. Employee Retirement Plans (continued)**

Net periodic pension (benefit) cost for all of the Plan's participants consists of the following for the years ended September 30 (in thousands):

	<u>2017</u>	<u>2016</u>
Interest cost on projected benefit obligation	\$ 5,069	\$ 5,678
Expected return on plan assets	(13,048)	(12,526)
Net amortization and deferral	1,281	1,305
Settlement charge	4,765	3,668
Net periodic pension (benefit) cost	<u>\$ (1,933)</u>	<u>\$ (1,875)</u>

The accumulated benefit obligation for the Plan was approximately \$163,901,000 and \$168,637,000 at September 30, 2017 and 2016, respectively. Since the plan is frozen and there are no projected salary increases, accumulated and projected benefit obligations are the same.

Weighted-average assumptions used to determine benefit obligations at the measurement date are as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	3.3%	2.9%

Weighted-average assumptions used to determine net periodic pension cost for the years ended September 30 are as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	3.3%	3.9%
Expected long-term rate of return on plan assets	7.8	8.0

The expected long-term rate of return on plan assets was developed using expected investment returns of the Plan's investment portfolio. The portfolio's actual annual rate of return has averaged 10.0% since its inception in 2009.

Northwest Community Healthcare and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**12. Employee Retirement Plans (continued)**

The Plan's weighted-average asset allocations at September 30, by asset category, are as follows:

Asset category	2017		2016	
	Target	Actual	Target	Actual
Equity securities	29%	27%	29%	30%
Fixed income securities	59	60	59	58
Alternative investments	12	13	12	12
	100%	100%	100%	100%

The Plan exists to provide retirement benefits for covered employees consistent with the long-term interests of the Plan's participants and their beneficiaries. The Plan's investment objectives may include, but are not limited to, the following: maintaining a portfolio of assets of appropriate liquidity and diversification which generate investment returns that, together with future contributions, are sufficient to maintain or improve the Plan's funding level; limiting the increase or variability of future contributions; and earning a rate of return in excess of a customized index.

There are no minimum employer contributions expected for 2018.

The following are the Plan's financial instruments at September 30, 2017, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 7 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 118	\$ —	\$ —	\$ 118
U.S. government and agency obligations	—	17,672	—	17,672
Mutual funds:				
U.S. equity	27,682	—	—	27,682
International equity	16,235	—	—	16,235
Fixed income	71,842	—	—	71,842
High-yield bonds	4,340	—	—	4,340
Emerging markets debt	2,883	—	—	2,883
Hedge fund of funds	—	—	21,838	21,838
	<u>\$ 123,100</u>	<u>\$ 17,672</u>	<u>\$ 21,838</u>	<u>\$ 162,610</u>

Northwest Community Healthcare and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**12. Employee Retirement Plans (continued)**

The following are the Plan's financial instruments at September 30, 2016, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 7 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 1,508	\$ —	\$ —	\$ 1,508
Mutual funds:				
U.S. equity	30,951	—	—	30,951
International equity	18,116	—	—	18,116
Fixed income	92,209	—	—	92,209
High-yield bonds	5,208	—	—	5,208
Emerging markets debt	3,371	—	—	3,371
Hedge fund of funds	—	—	20,081	20,081
	<u>\$ 151,363</u>	<u>\$ —</u>	<u>\$ 20,081</u>	<u>\$ 171,444</u>

Fair value methodologies for Level 1 and Level 2 are consistent with the inputs described in Note 7. Fair value measurements for Level 3 represent the Plan's ownership interests in the net asset value of a limited partnership investing in hedge funds for which active markets do not exist (alternative investments). The fair values of the alternative investments that do not have readily determinable fair values are determined by the general partner or fund manager taking into consideration, among other things, the cost of the securities or other investments, prices of recent significant transfers of like assets, and subsequent developments concerning the companies or other assets to which the alternative investments relate.

There is inherent uncertainty in such valuations, and the estimated fair values may differ from the values that would have been used had a ready market for these investments existed. The Plan's alternative investments also have liquidity restrictions and can be divested only at specified times based on terms in the partnership agreements.

The Plan's investment assets are exposed to the same kinds and levels of risk as described in Note 7.



Northwest Community Healthcare and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**12. Employee Retirement Plans (continued)**

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets (in thousands):

	<b>Hedge Fund of Funds</b>
Value at September 30, 2015	\$ 18,000
Unrealized gain	2,081
Sales	—
Purchases	—
Value at September 30, 2016	20,081
Unrealized gain	1,757
Sales	—
Purchases	—
Value at September 30, 2017	<u>\$ 21,838</u>

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid (in thousands):

	<b>Pension Benefits</b>
2018	\$ 18,016
2019	16,897
2020	15,835
2021	14,774
2022	13,901
2023 to 2027	54,015

Northwest Community Healthcare and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**12. Employee Retirement Plans (continued)**

**Defined Contribution (DC) 401K Plan**

In addition to the frozen plan, as of January 1, 2005, substantially all current and new employees are eligible for a defined contribution 401K Plan. Total DC employer expense was approximately \$7,677,000 and \$8,097,000 in 2017 and 2016, respectively, and is included in salaries and employee benefits expense. Healthcare matches employee contributions at a discretionary percentage per pay period.

Healthcare also sponsors two supplemental executive retirement plans. One plan had only one remaining participant who was fully vested and paid out in fiscal 2017. The total liability for these plans is \$1,642,000 and \$3,425,000 for the years ended September 30, 2017 and 2016, respectively, and is included in pension obligation liability. The related expense of \$527,000 and \$1,267,000 for 2017 and 2016, respectively, is recorded in salaries and employee benefits expense.

Healthcare also offers an Executive and Physician Income Deferral Plan (457B) which is 100% employee funded. All funds are transferred to a third-party investment firm in the name of the respective participant and no balances are reflected in Healthcare's financial statements. Healthcare had offered a physician deferred compensation program (now frozen) in which all 15 participants had vested. All funds have been moved to a third-party investment firm. The balance was \$4,996,000 and \$4,376,000 as of September 30, 2017 and 2016, respectively. The asset is presented separately in assets limited as to use and the liability is included in accrued expenses and other.

**13. Functional Expenses**

Healthcare provides general healthcare services to residents within its geographic location. Expenses related to providing these services are approximately as follows (in thousands):

	2017	2016
Healthcare services	\$ 415,228	\$ 393,104
General and administrative	175,382	164,759
Fundraising	884	885
	<u>\$ 591,494</u>	<u>\$ 558,748</u>

Northwest Community Healthcare and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**14. Illinois Hospital Assessment Program**

In December 2008, the Illinois Hospital Assessment Program (HAP) was approved by the Federal Centers for Medicare and Medicaid Services. In June 2014, the Hospital was notified of revised inpatient and outpatient assessment amounts. In fiscal years 2017 and 2016, the Hospital was subject to and paid all assessments.

Under HAP, Illinois receives additional federal Medicaid funds for the state's healthcare system administered by the Illinois Department of Healthcare and Family Services. HAP includes both a payment to the Hospital from the state and an assessment against the Hospital, which is paid to the state in the same year.

The Hospital recognized the following amounts in the years ended September 30 (in thousands):

	2017	2016
HAP revenue in net patient service revenue	\$ 23,730	\$ 20,737
HAP assessment in operating expense	19,715	16,407
Net benefit from HAP	<u>\$ 4,015</u>	<u>\$ 4,330</u>

**15. Subsequent Events**

Healthcare evaluated events and transactions occurring subsequent to September 30, 2017, through January 16, 2018, the issuance date of these consolidated financial statements. During this period, it is management's determination that there were no other subsequent events requiring recognition that have not been recorded in the consolidated financial statements, and no subsequent events requiring disclosure in the consolidated financial statements.

## Supplementary Information



Ernst & Young LLP  
155 North Wacker Drive  
Chicago, IL 60606-1787

Tel: +1 312 879 2000  
Fax: +1 312 879 4000  
ey.com

## Report of Independent Auditors on Supplementary Information

The Audit and Compliance Committee and the Board of Directors  
Northwest Community Healthcare and Subsidiaries

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements of Northwest Community Healthcare and Subsidiaries. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements themselves in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Ernst & Young LLP*

January 16, 2018

Northwest Community Healthcare and Subsidiaries

Details of Consolidated Balance Sheet

September 30, 2017 (Unaudited)

	Northwest Community Healthcare	Northwest Community Hospital	NWC Hospital Foundation	NWC Day Surgery Center II	NPC- CyberKnife, LLC	NWC Healthcare PHO, LLC	NWC Health Services and Subsidiaries	NCH Central Insurance	Consolidating Eliminations	Total
<b>Assets</b>										
<b>Current assets:</b>										
Cash and cash equivalents	\$ 1,577,372	\$ 19,039,838	\$ 3,852,235	\$ 1,388,262	\$ 63,749	\$ 1,752,530	\$ 3,099,202	\$ 99,280	\$ -	\$ 30,872,468
Patient accounts receivable, less allowance for uncollectible accounts of \$11,857,000	-	63,419,350	-	2,979,022	-	-	12,558,363	-	-	78,956,735
Other receivables	1,296,891	9,817,495	680,458	-	-	3,566,237	746,446	6,176,984	(9,202,181)	13,082,337
Prepaid expenses and other	1,411,673	12,250,097	-	513,625	203,130	1	528,384	352,805	-	15,259,715
Due from affiliates	-	58,526,918	574,944	-	306,083	-	-	(1)	(59,407,944)	-
<b>Total current assets</b>	<b>4,285,943</b>	<b>163,053,698</b>	<b>5,107,637</b>	<b>4,800,909</b>	<b>572,962</b>	<b>5,318,768</b>	<b>16,932,395</b>	<b>6,629,068</b>	<b>(68,610,125)</b>	<b>138,171,255</b>
<b>Assets limited as to use, at fair value:</b>										
Investments restricted under bond financing	-	12,643,063	-	-	-	-	-	-	-	12,643,063
Internally designated for operations and liquidity	-	-	-	-	-	-	-	-	-	-
Internally designated for capital replacement	414,933,564	-	-	-	-	-	-	-	-	414,933,564
Internally designated for insurance	-	-	-	-	-	-	-	26,509,978	-	26,509,978
Internally designated for deferred compensation	-	-	-	-	-	-	4,995,701	-	-	4,995,701
Internally designated for endowment	-	-	1,200,000	-	-	-	-	-	-	1,200,000
Externally designated for endowment and other	-	-	2,013,503	-	-	-	-	-	-	2,013,503
	<b>414,933,564</b>	<b>12,643,063</b>	<b>3,213,503</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,995,701</b>	<b>26,509,978</b>	<b>-</b>	<b>462,295,809</b>
<b>Property and equipment, at cost:</b>										
Land and land improvements	8,547,268	14,563,827	-	-	-	-	-	-	-	23,111,095
Buildings	51,635,108	307,551,751	-	-	-	-	-	-	-	359,186,859
Fixed equipment and leasehold improvements	15,511,557	216,056,242	-	-	-	-	4,204,703	-	-	235,772,502
Major movable equipment	807,390	195,493,728	-	2,520,840	3,555,000	-	5,524,156	-	-	207,901,114
Construction-in-progress	-	5,292,239	-	11,527	-	-	514,983	-	-	5,818,749
	<b>76,501,323</b>	<b>738,957,787</b>	<b>-</b>	<b>2,532,367</b>	<b>3,555,000</b>	<b>-</b>	<b>10,243,842</b>	<b>-</b>	<b>-</b>	<b>831,790,319</b>
<b>Less accumulated depreciation</b>	<b>(44,270,191)</b>	<b>(360,871,419)</b>	<b>-</b>	<b>(1,289,320)</b>	<b>(3,555,000)</b>	<b>-</b>	<b>(3,868,628)</b>	<b>-</b>	<b>-</b>	<b>(413,854,558)</b>
	<b>32,231,132</b>	<b>378,086,368</b>	<b>-</b>	<b>1,243,047</b>	<b>-</b>	<b>-</b>	<b>6,375,214</b>	<b>-</b>	<b>-</b>	<b>417,935,761</b>
<b>Interest in net assets of Foundation</b>	<b>-</b>	<b>4,960,072</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,960,072)</b>	<b>-</b>
<b>Reinsurance receivable</b>	<b>-</b>	<b>5,362,512</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,701,174</b>	<b>-</b>	<b>10,063,686</b>
<b>Other long-term assets</b>	<b>(3,071,014)</b>	<b>3,940,373</b>	<b>1,215,045</b>	<b>3,071,014</b>	<b>-</b>	<b>-</b>	<b>6,830,486</b>	<b>-</b>	<b>-</b>	<b>11,986,504</b>
<b>Investment in subsidiaries</b>	<b>70,241,775</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(70,241,775)</b>	<b>-</b>
	<b>67,170,761</b>	<b>14,262,957</b>	<b>1,215,045</b>	<b>3,071,014</b>	<b>-</b>	<b>-</b>	<b>6,830,486</b>	<b>4,701,174</b>	<b>(75,201,847)</b>	<b>22,050,190</b>
<b>Total assets</b>	<b>\$ 518,621,400</b>	<b>\$ 568,046,086</b>	<b>\$ 9,536,785</b>	<b>\$ 9,194,970</b>	<b>\$ 572,962</b>	<b>\$ 5,318,768</b>	<b>\$ 35,133,796</b>	<b>\$ 37,840,220</b>	<b>\$ (143,811,972)</b>	<b>\$ 1,040,453,015</b>

Northwest Community Healthcare and Subsidiaries

Details of Consolidated Balance Sheet (continued)

September 30, 2017 (Unaudited)

	Northwest Community Healthcare	Northwest Community Hospital	NWC Hospital Foundation	NWC Day Surgery Center II	NPC- CyberKnife, LLC	NWC Healthcare PHO, LLC	NWC Health Services and Subsidiaries	NCH Central Insurance	Consolidating Eliminations	Total
<b>Liabilities and net assets</b>										
<b>Current liabilities:</b>										
Accounts payable	\$ 87,375	\$ 19,418,279	\$ 7,265	\$ 468,380	\$ -	\$ 4,937	\$ 1,867,788	\$ -	\$ -	\$ 21,854,024
Accrued expenses and other	1,415,525	32,051,741	56,148	614,084	28,789	2,624,688	15,139,010	3,527,660	(9,202,181)	46,255,456
Current maturities of long-term debt obligations	-	7,315,000	-	-	-	-	-	-	-	7,315,000
Due to third-party payors	-	51,231,663	-	-	-	-	-	-	-	51,231,663
Due to affiliates	14,915,515	1,184,016	-	4,565,333	-	2,193,910	36,549,171	-	(59,407,945)	-
<b>Total current liabilities</b>	<b>16,418,415</b>	<b>111,200,699</b>	<b>63,405</b>	<b>5,647,797</b>	<b>28,789</b>	<b>4,823,535</b>	<b>53,555,969</b>	<b>3,527,660</b>	<b>(68,610,126)</b>	<b>126,616,143</b>
<b>Long-term obligations, less current maturities:</b>										
Series 2008B bonds	-	28,510,000	-	-	-	-	-	-	-	28,510,000
Series 2008C bonds	-	28,510,000	-	-	-	-	-	-	-	28,510,000
Series 2011 bonds	-	41,500,000	-	-	-	-	-	-	-	41,500,000
Series 2016 bonds	-	136,690,000	-	-	-	-	-	-	-	136,690,000
Series 2016 bonds premium	-	19,473,155	-	-	-	-	-	-	-	19,473,155
Bond issuance costs	-	(2,507,318)	-	-	-	-	-	-	-	(2,507,318)
	-	252,175,837	-	-	-	-	-	-	-	252,175,837
<b>Asset retirement obligation</b>	-	823,833	-	-	-	-	-	-	-	823,833
<b>Interest rate swap liability</b>	-	-	-	-	-	-	-	-	-	-
<b>Other long-term liabilities</b>	-	1,642,470	-	-	-	-	-	-	-	1,642,470
<b>Reserve for self-insurance</b>	-	14,019,496	-	-	-	-	-	34,192,560	-	48,212,056
<b>Pension obligation liability</b>	-	1,291,023	-	-	-	-	-	-	-	1,291,023
<b>Minority interest in subsidiary</b>	-	-	-	-	-	-	-	-	-	-
<b>Total noncurrent liabilities</b>	-	269,952,659	-	-	-	-	-	34,192,560	-	304,145,219
<b>Total liabilities</b>	<b>16,418,415</b>	<b>381,153,358</b>	<b>63,405</b>	<b>5,647,797</b>	<b>28,789</b>	<b>4,823,535</b>	<b>53,555,969</b>	<b>37,720,220</b>	<b>(68,610,126)</b>	<b>430,801,362</b>
<b>Net assets:</b>										
Unrestricted	502,202,985	181,932,657	4,513,309	3,547,173	144,173	495,233	(18,422,173)	120,000	(70,241,775)	604,691,582
Temporarily restricted	-	3,513,527	3,513,527	-	-	-	-	-	(3,513,527)	3,513,527
Permanently restricted	-	1,446,544	1,446,544	-	-	-	-	-	(1,446,544)	1,446,544
<b>Total net assets</b>	<b>502,202,985</b>	<b>186,892,728</b>	<b>9,473,380</b>	<b>3,547,173</b>	<b>144,173</b>	<b>495,233</b>	<b>(18,422,173)</b>	<b>120,000</b>	<b>(75,201,846)</b>	<b>609,651,653</b>
<b>Total liabilities and net assets</b>	<b>\$ 518,621,400</b>	<b>\$ 568,046,086</b>	<b>\$ 9,536,785</b>	<b>\$ 9,194,970</b>	<b>\$ 272,962</b>	<b>\$ 5,318,768</b>	<b>\$ 35,133,796</b>	<b>\$ 37,840,220</b>	<b>\$ (143,811,972)</b>	<b>\$ 1,040,453,015</b>

Northwest Community Healthcare and Subsidiaries

Details of Consolidated Statement of Operations and Changes in Net Assets

Year Ended September 30, 2017 (Unaudited)

	Northwest Community Healthcare	Northwest Community Hospital	NWC Hospital Foundation	NWC Day Surgery Center II	NPC- CyberKnife, LLC	NWC Healthcare PHO, LLC	NWC Health Services and Subsidiaries	NCH Central Insurance	Consolidating Eliminations	Total
<b>Revenue</b>										
Net patient service revenue	\$ -	\$ 458,428,939	\$ -	\$ 15,124,632	\$ -	\$ -	\$ 73,542,082	\$ -	\$ (3,170)	\$ 547,092,483
Provision for uncollectible accounts	-	(16,546,716)	-	(520,988)	-	-	(2,746,807)	-	-	(19,814,503)
	-	441,882,223	-	14,603,644	-	-	70,795,275	-	(3,170)	527,277,988
Other operating revenue	10,224,703	9,009,964	382,926	5,142	684,000	17,074,585	3,823,048	10,655,155	(13,107,072)	38,752,455
Total revenue	10,224,703	450,892,191	382,926	14,608,794	684,000	17,074,585	74,618,323	10,655,155	(13,118,242)	566,838,435
<b>Expenses</b>										
Salaries and employee benefits	2,242,935	232,922,515	615,139	4,929,983	5,832	682,864	70,319,217	-	(1,468,786)	310,249,679
Supplies and other	1,661,335	94,204,516	121,892	7,360,874	772	3,749	16,105,739	10,306,991	(13,670,558)	116,095,310
Professional fees and purchased services	2,564,709	67,315,885	147,104	1,277,454	331,496	16,822,307	11,815,252	348,164	(1,569,859)	99,052,512
Depreciation and amortization	2,142,191	35,188,288	-	321,383	-	-	1,386,744	-	-	38,958,606
Illinois hospital assessment	-	19,714,947	-	-	-	-	-	-	-	19,714,947
Interest	-	7,422,887	-	-	-	-	-	-	-	7,422,887
Total expenses	8,611,170	456,689,038	884,135	13,889,674	338,100	17,508,920	99,626,952	10,655,155	(16,709,203)	591,493,941
Operating income (loss)	1,613,533	(5,796,847)	(501,209)	719,120	345,900	(434,335)	(25,008,629)	-	3,598,961	(25,463,586)
<b>Nonoperating revenue (expense)</b>										
Net investment income	43,350,182	1,555	211,626	-	-	-	-	-	-	43,563,363
Other	6,955	(44,783)	-	4,000	-	-	19,479	-	(802,342)	(816,691)
Net nonoperating revenue (expense)	43,357,137	(43,228)	211,626	4,000	-	-	19,479	-	(802,342)	42,746,672
Excess (deficit) of revenue over expenses	\$ 44,970,670	\$ (5,840,875)	\$ (289,583)	\$ 723,120	\$ 345,908	\$ (434,335)	\$ (24,989,150)	\$ -	\$ 2,796,619	\$ 17,283,166



Northwest Community Healthcare and Subsidiaries

Details of Consolidated Statement of Operations and Changes in Net Assets (continued)

Year Ended September 30, 2017 (Unaudited)

	Northwest Community Healthcare	Northwest Community Hospital	NWC Hospital Foundation	NWC Day Surgery Center II	NPC- CyberKnife, LLC	NWC Healthcare PHO, LLC	NWC Health Services and Subsidiaries	NCH Central Insurance	Consolidating Eliminations	Total
Unrestricted net assets										
Excess (deficit) of revenue over expenses	\$ 44,970,670	\$ (5,840,075)	\$ (289,583)	\$ 723,120	\$ 345,900	\$ (434,335)	\$ (24,989,150)	\$ -	\$ 2,796,619	\$ 17,283,166
Pension-related changes other than net periodic pension cost	-	(6,831,319)	-	-	-	-	-	-	-	(6,831,319)
Net assets released from restrictions used for:										
purchase of property and equipment or operations	165,131	323,004	4,231,336	-	-	-	5,000	-	(4,231,336)	493,135
Additional capital contributions by noncontrolling interests	(124,229)	-	-	-	-	-	3,131,099	-	333,666	3,340,536
Distribution to CyberKnife investors	-	-	-	-	(184,865)	-	-	-	184,865	-
Distribution to DSC-II investors	-	-	-	(1,282,383)	-	-	-	-	1,282,383	-
Increase (decrease) in unrestricted net assets	45,011,572	(12,348,390)	3,941,753	(559,263)	161,035	(434,335)	(21,853,051)	-	366,197	(4,285,518)
Temporarily restricted net assets										
Contributions	-	-	1,772,046	-	-	-	-	-	-	1,772,046
Investment income	-	-	211,700	-	-	-	-	-	-	211,700
Net assets released from restrictions used for:										
Purchase of property and equipment	-	(323,004)	(493,135)	-	-	-	-	-	323,004	(493,135)
Operations	-	(758,558)	(5,119,333)	-	-	-	-	-	758,558	(5,119,333)
Other	-	-	(471,108)	-	-	-	-	-	-	(471,108)
Change in interest in net assets of Foundation	-	(2,858,025)	-	-	-	-	-	-	2,858,025	-
Increase (decrease) in temporarily restricted net assets	-	(3,939,587)	(4,099,830)	-	-	-	-	-	3,939,587	(4,099,830)
Permanently restricted net assets										
Contributions	-	-	5,000	-	-	-	-	-	-	5,000
Other	-	-	471,108	-	-	-	-	-	-	471,108
Change in interest in net assets of Foundation	-	91,714	-	-	-	-	-	-	(91,714)	-
Increase (decrease) in permanently restricted net assets	-	91,714	476,108	-	-	-	-	-	(91,714)	476,108
Increase (decrease) in net assets	45,011,572	(16,196,263)	318,031	(559,263)	161,035	(434,335)	(21,853,051)	-	4,214,070	10,661,796
Net assets at beginning of year	457,191,413	203,088,991	9,155,349	4,106,426	383,138	929,568	3,430,878	120,000	(79,415,916)	598,989,857
Net assets at end of year	\$ 502,202,985	\$ 186,892,728	\$ 9,473,380	\$ 3,547,163	\$ 544,173	\$ 495,233	\$ (18,422,173)	\$ 120,000	\$ (75,201,846)	\$ 609,651,653

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# MOODY'S

INVESTORS SERVICE

## CREDIT OPINION

27 September 2017

### Update

Rate this Research >>

#### Contacts

Diana Lee 212-553-4747  
VP-Sr Credit Officer  
diana.lee@moodys.com

Lisa Martin 212-553-1423  
Senior Vice President  
lisa.martin@moodys.com

Beth I. Wexler 212-553-1384  
VP-Sr Credit Officer  
beth.wexler@moodys.com

## Northwest Community Hospital, IL

Update - Moody's affirms Northwest Community Hospital, IL at A2; outlook to negative

### Summary Rating Rationale

Moody's Investors Service affirms Northwest Community Hospital's, IL A2 rating. The rating outlook has been changed to negative from stable. The action affects about \$204 million of debt.

The change to a negative from stable outlook reflects our view that Northwest Community Hospital (NCH) will face pressures stemming from a dynamic Chicago-area market. This will likely hurt its ability to return to and sustain margins that are more in line with our A2 medians following weak performance in FY 2017. The A2 rating is supported by good absolute liquidity levels, a solid position in a favorable service area, and historically adequate margins for the rating category. Challenges include intense competition, recent unfavorable shifts in payer mix and higher bad debt rates, and investment allocations that expose NCH to potential for liquidity contraction.

### Credit Strengths

- » Still solid local market position; currently holds about 50% of its key service area with good demographics
- » Anticipate positive inpatient demand after previous multi-year decline
- » Expect absolute liquidity to remain good, with 285 days cash on hand based on 9 month unaudited financials
- » Maintenance of healthy covenant headroom in letters of credit; expect no additional debt

### Credit Challenges

- » Higher bad debt and payer mix shifts will pressure margins, as highlighted by weak performance in FY 2017
- » Small size relative to other consolidated providers raises risk especially in light of a dominant area payor, changing reimbursement models, and a failed merger of 2 large players
- » Debt to cash flow metrics have been weaker than A2 medians; cash levels will remain healthy but are lower than historical highs

- » Riskier than average asset allocation, with high aggregate exposure to equities and alternative investments

## Rating Outlook

The negative outlook reflects our view that NCH will face pressures amid a highly fluid and competitive market. This will likely make it difficult to return to and sustain margins and debt metrics that are more in line with our A2 medians following weak performance in FY 2017.

## Factors that Could Lead to an Upgrade

- » Material and sustained improvement in operating margins
- » Deleveraging and strengthened balance sheet metrics
- » Greater diversification of revenues and increased market share
- » Evidence that NCH can adjust to fluid marketplace and changing reimbursement models

## Factors that Could Lead to a Downgrade

- » Failure to demonstrate improved and sustainable margins and debt metrics
- » Competitive or payer dynamics, including new insurance contracts, increase the likelihood of weaker performance
- » Contraction of absolute or relative liquidity measures
- » Increase in leverage
- » Further deterioration in market share

## Key Indicators

Exhibit 1

### Northwest Community Hospital

	2012	2013	2014	2015	2016	2017 Annualized 9 Months
Operating Revenue (\$'000)	484,597	481,876	504,522	519,465	548,835	560,604
3 Year Operating Revenue CAGR (%)	2.2	3.2	1.8	2.3	4.4	4.0
Operating Cash Flow Margin (%)	10.4	9.4	10.8	9.1	9.5	4.3
PM: Medicare (%)	47.3	47.6	47.3	47.5	48.4	
PM: Medicaid (%)	6.2	6.6	7.2	8.2	8.6	
Days Cash on Hand	338	374	370	311	302	285
Unrestricted Cash and Investments to Total Debt (%)	147.5	167.8	175.3	158.4	167.9	180.4
Total Debt to Cash Flow (x)	3.8	3.8	3.2	3.8	3.4	5.0

Based on audited and unaudited financial statements for Northwest Community Healthcare and Subsidiaries; 2017 annualized based on 9 month unaudited financial statements for June 30, 2017. Investment returns normalized at 6% prior to FY 2015 and 5% in FY 2015 and beyond

Source: Moody's Investors Service

## Recent Developments

Recent developments are incorporated in the Detailed Rating Considerations section.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

Attachment 35

## Detailed Rating Considerations

### Market Position

#### **Market Position: Good market share of favorable demographic but bad debt rises and competition significant**

Demographics will generally remain favorable in NCH's primary service area. Although Illinois expanded its Medicaid program under the Affordable Care Act, this population as a percentage of revenues will be manageable (8.6% in FY 2016). However, bad debt and charity care will be more elevated than in the past. In FY 2017, bad debt and charity care rose in part due to higher co-pays, deductibles and underinsured individuals. In the coming year, management will take steps to improve collections of these receivables. Further, a mix shift to less favorable non-commercial payers, which seems to be an area-wide challenge, will pressure profitability.

NCH continues to operate in a competitive environment with several hospitals of similar size and service line offerings (several of which are part of larger systems) within a 20-mile radius. The recent dissolution of the planned merger between Advocate Health Care Network (Aa2 stable) and NorthShore University Health System (Aa2 stable) raises some uncertainty regarding the competitive landscape. Nevertheless, the ability for NCH to remain independent in a highly consolidated market with a dominant commercial payer, remains a concern. This is particularly true as area payers and providers will seek to engage in value based contracting. Although NCH has begun to test these types of contracts, in most instances, it has not yet taken full risk.

NCH's focus on building a clinically integrated network by aligning with other area providers will help to position the hospital to operate under new payment models. NCH will continue to build scale throughout the community by growing outpatient access points. NCH's employment and alignment initiatives with physicians have accelerated in recent years.

Despite very strong competition, we expect NCH to maintain a favorable market position over the coming year. Based on management-provided data, NCH's market share in its primary service area is about 52% (adjusted for observations) in fiscal year 2016, flat with FY 2015. However, its market share has fallen from a FY 2013 recent year high of 59%. Demand statistics have been variable, although inpatient admissions (excluding observation stays) did increase in 2015 and again in 2016 after a multi-year decline.

#### **Operating Performance, Balance Sheet and Capital Plans: Cost initiatives underway to help offset erosion in margins and debt metrics**

In the coming year, NCH will focus on implementing a variety of cost savings and revenue generating initiatives to help offset ongoing operating pressures that resulted in an operating loss and materially weaker operating margins in FY 2017. As mentioned above, key operating issues that led to margin erosion in FY 2017 included higher bad debt and charity care and less favorable payer mix. Management does not expect certain accounts receivable reserve charges or consulting fees to recur in FY 2018. NCH also saw weaker than budgeted performance in FY 2016 (although better than FY 2015) due to Epic-related consulting fees.

NCH's cost initiatives include: improving collection of unpaid claims for commercially-insured patients, reducing LOS, raising productivity, and attaining better GPO prices. Management also expects to benefit from revenue opportunities including those associated with newly hired physicians.

Although FY 2018 performance will likely improve over FY 2017, it is unclear whether margins and debt metrics will return to, and importantly, be sustained at levels consistent with an A2 rating. During FY 2017, margins have been well-below A2 medians with an operating cash flow margin for the annualized 9 month period ended June 30, 2017 of 4.3% compared to the A2 median of 10%. Debt to cash flow of about 5 times and MADs coverage of about 2.6 times compared unfavorably to A2 medians of 2.8 times and 4.9 times, respectively.

### LIQUIDITY

NCH's balance sheet will remain a credit strength, providing some financial flexibility and cash cushion to withstand short term operating pressures. Days cash on hand at June 30, 2017 declined from FYE 2016's 302 days, but is still solid at 285 days. Management expects cash on hand to return to levels closer to its target of 300 days by FYE 17. Nevertheless, this reflects a steady decline since 2013's peak of about 374 days. NCH will maintain good cash cushion for debt (168% at FYE 2016, rising to about 180% at June 30, 2017). Both cash metrics will be above those for Moody's A2 medians. Management reports there are no immediate plans for incremental debt borrowings.

Attachment 35

NCH's investment allocation gives rise to some concern with potential investment market volatility, particularly as cash-flow remains modest. Approximately 35% of investments are allocated to cash and fixed income investments, 50% to equities with the remainder allocated to hedge funds and real estate. Returns on investments have been particularly strong in the past several years due to the strength of the equity markets but the sustainability of these trends is uncertain.

#### **Debt Structure and Legal Covenants**

##### **DEBT STRUCTURE**

Of the \$250 million in outstanding debt, about \$204 million carries an A2 long-term or underlying rating. Approximately 44% is variable rate, but NCH has maintained healthy headroom to covenants contained in letters of credit (expiration dates are in October 2020). Monthly cash and investment coverage of demand debt will remain healthy (over 315% at FYE 2016).

##### **DEBT-RELATED DERIVATIVES**

NCH repurchased its outstanding swap in July 2016, resulting in a loss of \$547,000 (reflected in non-operating income).

##### **PENSIONS AND OPEB**

De-minimis indirect debt with a fully-funded pension plan and the equivalent of approximately \$21 million of operating leases (based on a four times multiplier) for FY 2016. Cash-to-total adjusted debt (including direct debt, pension, and operating lease liabilities) measured 155% at FYE 2016, favorable to the A2 median of 113%.

#### **Management and Governance**

NCH's senior management team is focused on implementing initiatives to improve operating margins and position the organization for success as a provider in an alliance relationship. The CEO has been in his position since 2013, previously serving as CFO. The current CFO joined NCH in 2015.

#### **Legal Security**

The Obligated Group, which is comprised of Northwest Community Healthcare (the parent corporation), and Northwest Community Hospital, are jointly and severally obligated to pay the principal, premium and interest on the bonds when due. All Obligations issued under the Master Indenture are secured by a security interest in the Unrestricted Receivables of the Obligated Group.

#### **Use of Proceeds**

Not applicable.

#### **Obligor Profile**

Northwest Community Hospital is a 509 bed acute care hospital located in Arlington Heights, Illinois. The hospital serves Chicago's northwest suburbs.

#### **Methodology**

The principal methodology used in this rating was Not-For-Profit Healthcare Rating Methodology published in November 2015. Please see the Rating Methodologies page on [www.moody's.com](http://www.moody's.com) for a copy of this methodology.

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REPORT NUMBER 1087764

## Contacts

Diana Lee                      212-553-4747  
VP-Sr Credit Officer  
diana.lee@moody.com



## 1120.140 Economic Feasibility

### A. Reasonableness of Financing Arrangements

*and*

### B. Conditions of Debt Financing

The following attachments address these requirements for the loan to Kildeer Medical Building:

- January 9 letter by Lake Forest Real Estate Capital, LLC
- February 1 letter by Brian Baker, Jr, Manager of Kildeer Medical Building, LLC

The following attachments address these requirements for the leasing of space by Northwest Community Hospital:

- February 5 letter by Northwest Community Hospital
- Summary of Lease Terms and Conditions

### C. Table: Reasonableness of Project and Related Costs

### D. Table showing Projected Operating Costs

### E. Table showing Total Effect of the Project on Capital Costs

February 1, 2018

Ms Kathryn J. Olson  
Chair  
Illinois Health Facilities and Services Review Board  
525 W. Jefferson Street 2<sup>nd</sup> floor  
Springfield, IL 62761

Re: Kildeer Ambulatory Care Center

Dear Ms. Olson:

Kildeer Medical Building, LLC is operating entity and licensee for the Ambulatory Care Center proposed at 21481 N. Rand Road, Kildeer, IL. As part of the financial arrangement for the project, Kildeer Medical Building, LLC will take out a loan of up to \$24,750,000. Lake Forest Real Estate Capital is the mortgage broker to secure the loan.

The loan will be at the best terms available in the market, offering the lowest net cost.

If you have any questions, please contact Mike O'Keefe, Director of the Healthcare Real Estate Group at Navigant, acting as agent for Kildeer Medical Building, LLC, at 312 583-3711.

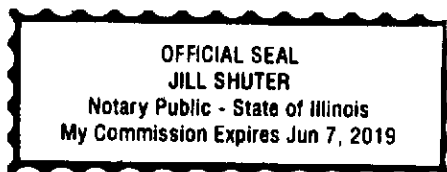
Sincerely,



Brian Baker, Jr  
Manager  
Medicus Kildeer, LLC  
Manager of Kildeer Medical Building, LLC

NOTARIZED

*Jill Shuter 2/5/18*





LAKE FOREST  
REAL ESTATE CAPITAL

February 5, 2018

Mr. Mike O'Keefe  
Director - Healthcare Real Estate Group  
Navigant  
150 N. Riverside Plaza, Suite 2100  
Chicago, IL 60606

***Re: Kildcer Medical Building LLC***

Dear Mike:

At your request we have reviewed the preliminary information presented by you with the intention of arranging for you construction and permanent first mortgage debt financing. These figures are preliminary and subject to further due diligence; however, based on our capital sources, we are comfortable quoting the following terms based on the current credit market conditions:

Maximum Loan Amount: \$24,750,000.00

Loan to Cost Limitation: 85%

Loan to Value Limitation: 75%

Origination Fee: 1.0%

Construction Loan:

Term: 18 months

Interest Rate Spread: 450 basis points

Interest Rate Index: 30-day LIBOR (1.58% as of February 2, 2018)

Indicative Floating Rate: 6.05%

Permanent Loan:

Forward Commitment Term: 12 months with extension options

Forward Rate Lock Premium: 3 basis points per month

Interest Rate Spread: 190 to 215 basis points (depending on term)

Balloon Option:

Term: 5, 7, or 10 years

Amortization: 30 years

Interest Rate Index: Treasury Rate Corresponding to selected term

Fully Amortizing:

Term: 15 years

Amortization: 15 years

Interest Rate Index: Treasury Rate Corresponding to average life

Estimated Fixed Interest Rate Range: 4.7% to 5.1% plus forward premium

1300 North Waukegan Road • Lake Forest, Illinois 60045 • T: 847.778.6788 • F: 847.615.1120 • [lrcapital.com](http://lrcapital.com)

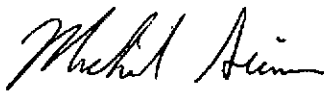
## Lake Forest Real Estate Capital, LLC

### Special Conditions:

1. Review and approval of
  - a. Plans & specs
  - b. Tenant lease
  - c. Development agreement
  - d. Tenant financial statements
2. Closing is predicated upon municipal approvals and/or permits

Sincerely,

LAKE FOREST REAL ESTATE CAPITAL, LLC



Michael J. Sieman  
Managing Principal  
847-778-6788

February 5, 2018

Ms. Kathryn J. Olson  
Chair  
Illinois Health Facilities and Services Review Board  
525 W. Jefferson Street, 2<sup>nd</sup> floor  
Springfield, IL, 62761

Re: Kildeer Ambulatory Care Center  
Lease by Northwest Community Hospital

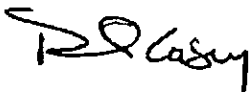
Dear Ms. Olson,

Northwest Community Hospital will have a master lease of space in the Kildeer Medical Building proposed at 21481 N. Rand Road, Kildeer. A summary of the lease terms and conditions is attached. The lease is not finalized at this time.

The purpose of leasing space from Kildeer Medical Building LLC is to reduce up front capital requirements by Northwest Community Hospital and Northwest Community Healthcare in order to preserve capital for other building commitments. The terms of the leasing arrangement will be negotiated to be as responsible and prudent as possible.

If you have any questions, please contact me at 847-618-5060.

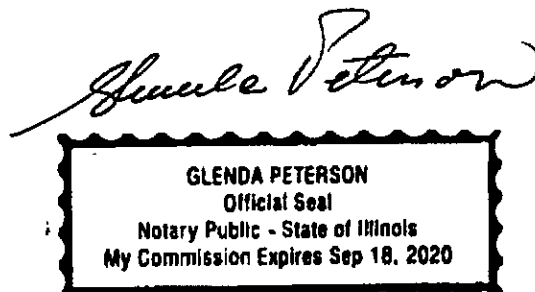
Sincerely,



Rich Casey, MS, FACHE  
Vice President, Hospital Operations  
Northwest Community Healthcare

Cc: Brad Buxton, Vice President, Strategy and Business Development

RC/gp



Attachment 37

Kildeer Ambulatory Care Center  
Summary of Lease Terms & Conditions  
February 1, 2018

<b>Landlord:</b>	Kildeer Medical Building, LLC
<b>Tenant:</b>	Northwest Community Hospital
<b>Premises:</b>	An approximately 51,100 gross square foot building to be constructed on a 5.23-acre site commonly known as 21481 N. Rand Rd., Kildeer, IL 60047.
<b>Lease Term:</b>	Fifteen (15) years, commencing on the date the Premises are substantially complete.
<b>Renewal Options:</b>	Two (2) ten (10) year renewal options.
<b>Base Net Rent:</b>	Currently estimated to be approximately \$2,131,000 for the first lease year, subject to adjustment upon completion of the Premises based on final actual project costs.
<b>Annual Base Rental Increases:</b>	2.5%
<b>Operating Expenses and Taxes:</b>	Tenant shall be responsible for all operating expenses and real estate taxes.

C. Reasonableness of Project and Related Costs

CONSTRUCTION COST AND SQUARE FOOT BY DEPARTMENT

	A	B	C	D	E	F	G	H	
Department	Cost / Sq Ft		DGSF		DGSF		Const \$	Mod \$	Total Cost
	New	Mod	New	Circ %	Mod	Circ %	(A x C)	(B x E)	(G + H)
<b>REVIEWABLE</b>									
Imaging	\$280.00		6759	20%			1,892,520		1,892,520
Stress/EKG/Card Reh/NM	\$275.00		4614	11%			1,268,850		1,268,850
Physical Therapy	\$264.00		4343	3%			1,146,552		1,146,552
Lab / draw station	\$270.00		1342	3%			362,340		362,340
<b>Total clinical services</b>	<b>\$273.79</b>		<b>17058</b>	<b>12%</b>			<b>4,670,262</b>		<b>4,670,262</b>
<b>NON-REVIEWABLE</b>									
Immediate Care Center	\$405.00		6319	16%			2,559,195		2,559,195
Clinic exam rooms	\$401.24		14852	26%			5,959,185		5,959,185
Building services	\$435.00		1526	0%			663,810		663,810
Common circulation	\$395.00		2273	100%			897,835		897,835
Waiting/reg/restrooms	\$370.00		2004	0%			741,480		741,480
Admin/staff areas	\$370.00		3348	85			1,238,760		1,238,760
<b>Total non-clinical areas</b>	<b>\$397.74</b>		<b>30322</b>	<b>24%</b>			<b>12,060,265</b>		<b>12,060,265</b>
<b>TOTAL PROJECT</b>	<b>\$353.11</b>		<b>47,380</b>	<b>20%</b>			<b>16,730,527</b>		<b>16,730,527</b>

Note: Figures are New Construction Costs

For clinical space of 17,058 sq ft, contingency of \$443,675 adds \$26.01 per sq ft, resulting in a construction plus contingency cost per sq ft of \$299.80.

For non-clinical space of 30,322 sq ft, contingency of \$1,145,725 adds \$37.79 per sq ft, resulting in a construction plus contingency cost per sq ft of \$435.53.

## Project Costs and Sources of Funds

Complete the following table listing all costs (refer to Part 1120.110) associated with the project. When a project or any component of a project is to be accomplished by lease, donation, gift, or other means, the fair market or dollar value (refer to Part 1130.140) of the component must be included in the estimated project cost. If the project contains non-reviewable components that are not related to the provision of health care, complete the second column of the table below. Note, the use and sources of funds must be equal.

Project Costs and Sources of Funds			
USE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Preplanning Costs	\$14,816	\$108,651	\$123,467
Site Survey and Soil Investigation	\$3,525	\$25,850	\$29,375
Site Preparation	\$250,000	\$2,136,602	\$2,386,602
Off Site Work	\$128,160	\$939,840	\$1,068,000
New Construction Contracts	\$4,670,262	\$12,060,265	\$16,730,527
Modernization Contracts	\$0	\$0	\$0
Contingencies	\$443,675	\$1,145,725	\$1,589,400
Architectural/Engineering Fees	\$388,702	\$691,024	\$1,079,726
Consulting and Other Fees	\$908,260	\$1,614,685	\$2,522,945
Movable or Other Equipment (not in construction contracts)	\$3,829,250	\$675,750	\$4,505,000
Bond Issuance Expense (project related)	\$0	\$0	\$0
Net Interest Expense During Construction (project related)	\$444,302	\$789,869	\$1,234,171
Fair Market Value of Leased Space or Equipment	\$8,379,720	\$14,897,280	\$23,277,000
Other Costs to be Capitalized	\$804,672	\$1,430,528	\$2,235,200
Acquisition of Building or Other Property (excluding land)	\$0	\$0	\$0
<b>TOTAL USES OF FUNDS</b>	<b>\$20,265,344</b>	<b>\$36,516,069</b>	<b>\$56,781,413</b>
SOURCE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Cash and Securities	\$2,975,624	\$5,778,789	\$8,754,413
Pledges			
Gifts and Bequests			
Bond Issues (project related)			
Mortgages	\$8,910,000	\$15,840,000	\$24,750,000
Leases (fair market value)	\$8,379,720	\$14,897,280	\$23,277,000
Governmental Appropriations			
Grants			
Other Funds and Sources			
<b>TOTAL SOURCES OF FUNDS</b>	<b>\$20,265,344</b>	<b>\$36,516,069</b>	<b>\$56,781,413</b>
NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT 7 IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM			



## **Project Costs and Sources of Funds**

The following information provides detail regarding cost line items for the Project Costs and Sources of Funds table:

### **Preplanning Costs**

Costs include pre-design assessments, pre-construction fees, legal, zoning, environmental site assessment, initial traffic and parking studies, and operational planning services.

\$123,467 of which \$14,816 is Clinical

### **Site Survey and Soil Investigation**

This line item includes soil testing and survey work.

\$29,375 of which \$3,525 is Clinical

### **Site Preparation**

This work includes demolition of existing structures and slabs as well as backfilling of partial basement. Earthwork, erosion control, foundation excavation, site concrete, asphalt paving, site utilities and landscaping on the 5.5 acre site.

\$2,386,602 of which \$250,000 is Clinical

### **Off Site Work**

This work includes improvements to public streets and right-of-ways, including deceleration lanes as required.

\$1,068,000 of which \$128,160 is Clinical

### **New Construction contracts**

Construction of a two-story, 51,100 building gross sq ft facility. Costs include general conditions, masonry, steel, carpentry/wood/plastics, thermal and moisture protection, doors and windows, mechanical (plumbing, HVAC), electrical, fire alarm system.

\$16,730,527 of which \$4,670,262 is Clinical

### **Modernization contracts**

Not Applicable

**Contingencies**

\$1,589,400 in contingencies are 9.5% of the total \$16,730,527 new construction costs.

The \$443,675 contingency is also 9.5% of the clinical construction cost of \$4,670,262.

For the clinical component of the project, construction cost of \$273.79 per sq ft plus contingency of \$26.01 per sq ft is a total of \$299.80 per sq ft.

**Architect/Engineering fees**

This work includes preparation of schematic design, design development, construction documents, bidding and negotiation services, presentations at client and public meetings, and project management services.

\$1,079,726 of which \$388,702 is Clinical

**Consulting and other fees**

Certificate of need consulting / filing fees, commissioning consultant, lender fees, regulatory and permit fees, utilities during construction and builder's risk policy.

\$2,522,945 of which \$908,260 is Clinical

**Moveable or other Equipment**

The total equipment budget is \$4,505,000. Most of the clinical medical equipment is located in the imaging center:

MRI, including installation and shielding	\$1,700,000
CT scanner, installation with shielding	1,500,000
Radiology / x-ray	150,000
Mammography	160,000
DEXA bone densitometry	110,000
Ultrasound (2 units)	<u>150,000</u>
<b>TOTAL</b>	<b>\$3,770,000</b>

Additional equipment bringing the total to \$4,505,000 includes audiology testing, stress testing, EKG, gym therapy, POC/lab, and equipment supporting the exam rooms in the ICC and the physician office clinic areas.

\$4,505,000 of which \$3,829,250 is Clinical

**Bond Issuance Expense**

Not Applicable

**Net Interest Expense During Construction**

\$1,234,171 of which \$444,302 in interest is assigned to Clinical.

**Fair Market Value of Leased Space**

Northwest Community Hospital is leasing the entire building. The estimated fair market value of the leased space is \$23,277,000, based on the present value of rent over the 15 year term of the lease. Of the \$23,277,000, \$8,379,720 is assigned to the clinical component of the project.

**Other Costs to be Capitalized**

This line item refers to the cost of IT / Telecommunications -- computers, switch and cabling as well as FF&E including furniture, art and interior / exterior building signage.

IT is \$1,635,200

Furnishings is estimated at \$600,000, and includes: tables, chairs, conference rooms, staff lounge, waiting areas, desks and work stations, artwork, interior and exterior signage.

\$2,235,200 of which \$804,672 is Clinical

**D. Project Operating Costs****Project Direct Operating Expenses - FY 2022**

	Project
Total Operating Costs	\$13,264,924
Equivalent Patient Days	17,546
Direct Cost per Equivalent Patient Day	\$756

**E. Total Effect of the Project on Capital Costs****Projected Capital Costs - FY 2022**

	Project FY 2022	Total NCH FY 2022
Equivalent Adult Patient Days (All NCH)	--	212,436
Total Project Cost	\$56,781,413*	--
Useful Life	20	--
Total Annual Depreciation	\$2,839,071	\$35,108,288
Depreciation Cost per Equivalent Patient Day	\$161	\$165

\* Includes, Building, Lease and Interior Buildout (NCH Capital Costs@\$9.2 M)

XII. Charity Care Information

NCH CHARITY CARE			
	2014	2015	2016
Net Patient Revenue	\$ 422,423,790	\$ 453,365,540	\$ 446,706,777
Amount of Charity Care (charges)	\$ 52,964,308	\$ 48,610,524	\$ 36,931,355
Cost of Charity Care	\$ 12,898,248	\$ 13,533,660	\$ 8,952,160

February 6, 2018

Mr. Michael Constantino  
Illinois Health Facilities and Services Review Board  
525 West Jefferson Street 2<sup>nd</sup> Floor  
Springfield, IL 62761

Re: Certificate of Need Permit Application  
Ambulatory Care Center  
Kildeer, Illinois

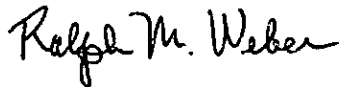
Dear Mr. Constantino

On behalf of co-applicants Northwest Community Hospital, Northwest Community Healthcare and Kildeer Medical Building, LLC, I am pleased to submit the Certificate of Need permit application for the construction of an ambulatory care center in Kildeer, Illinois. Enclosed is an original and one copy of the permit application.

Also enclosed is check #119 in the amount of \$2500 to the Illinois Department of Public Health as payment of the initial application fee.

We look forward to the review of the project by staff and the Illinois Health Facilities and Services Review Board.

Sincerely,



Ralph M. Weber  
Weber Alliance  
920 Hoffman Lane  
Riverwoods, IL 60015  
847-791-0830

Cc: Brad Buxton, Vice President, Strategy & Business Development, Northwest Community Healthcare  
Mike O'Keefe, Agent for Kildeer Medical Building, LLC